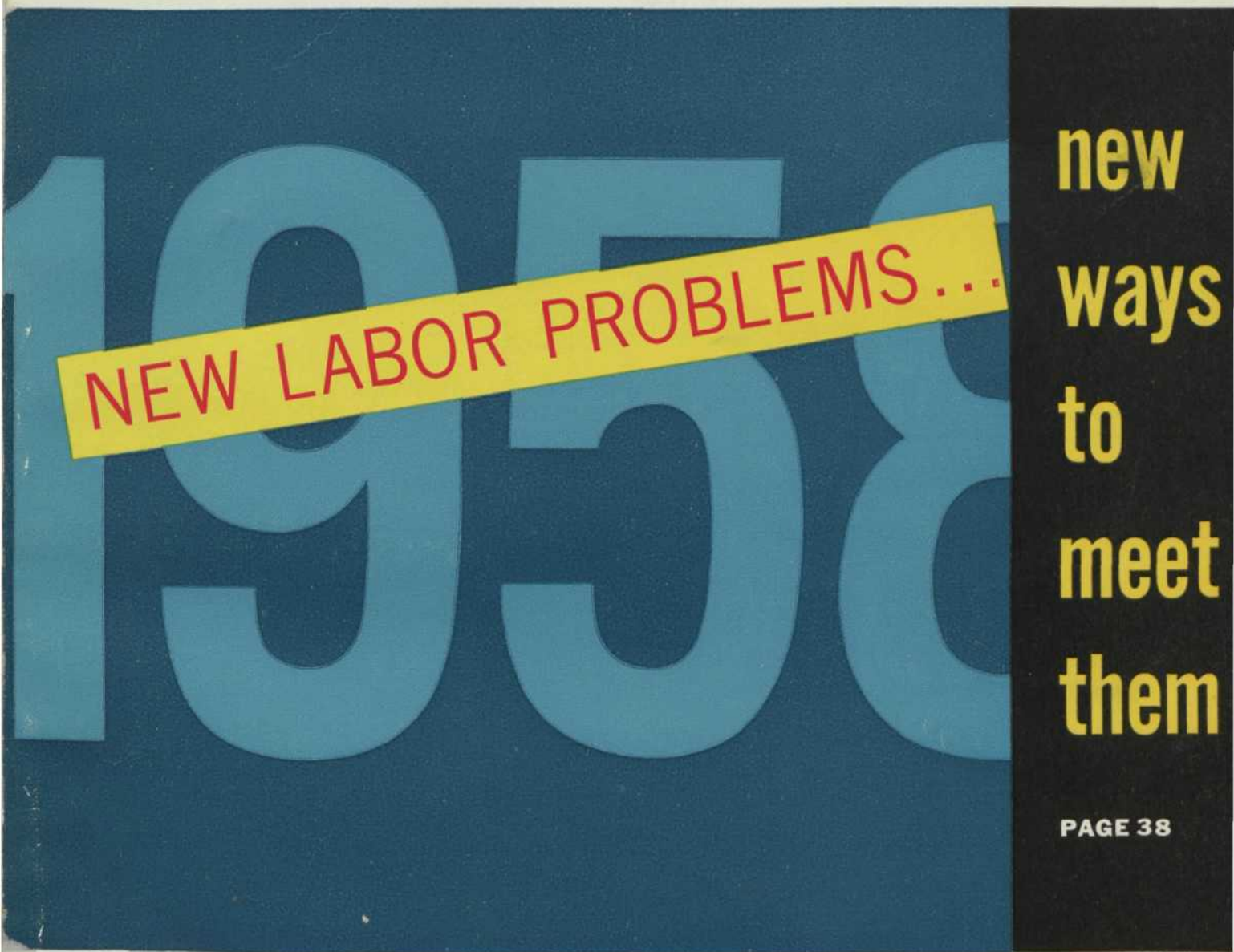


Nation's Business

A USEFUL LOOK AHEAD

JANUARY 1958




Expect this from easier money PAGE 40

Today's plateau: tomorrow's opportunity PAGE 42

How to develop ideas PAGE 76

What satellites cost the Russians PAGE 36

NEW INTERNATIONAL® 330 UTILITY TRACTOR



Now, International tractors with matched loaders and backhoes—complete units backed by unexcelled IH facilities for parts, service and financing. Here, the new 330 Utility is equipped with International Wagner loader and backhoe.

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New telephone system permits growing businesses to "let out" their telephone facilities without having to get a whole new "suit of clothes"

The Bell System brings out another improvement in modern telephone service . . . a simple and flexible dial telephone system that grows as the business grows.

In these days when so much business is done by telephone, many companies find themselves faced with overloaded communications systems.

To meet this situation, the Bell System has developed a "packaged" type of dial telephone system that takes up little space and is quickly and easily installed.

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One of our biggest jobs is helping businesses to grow. This is another ex-

ample of our lively interest in matching telephone service to our customers' always expanding needs.



Modular Pushbutton Key Console provides simplified operation, saves time, speeds service, and occupies little space. All calls disconnect automatically.

Working together to bring people together . . . **BELL TELEPHONE SYSTEM**



Nation's Business

January 1958 Vol. 46 No. 1

Published by the Chamber of Commerce of the United States
Washington, D.C.

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The rise in population and incomes foretells changes in tastes and demand within the food industry. Here's why

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54 You can boost sales in '58

This exclusive interview probes into many problem areas facing marketing and gives practical ideas to solve them

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All sides favor some regulation of union activities this year, but hot fight is brewing. Here is what to look for

76 How to develop ideas

Creative people have four main characteristics. Here's how they can be acquired or developed to some degree in anyone

82 Local demands peril U. S. budget cuts

New investigation looks at prospects for turning some of Uncle Sam's costly grant-in-aid programs back to the states

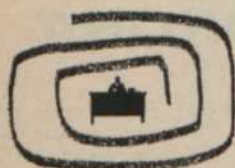
88 EXECUTIVE TRENDS: Management challenge

Stiff competition, complex technology point up growing need for better quality control both in products and in personnel

96 More urgent than defense

Americans are ready to do whatever must be done for defense, but there is a more primary need that must get action

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Alden H. Sypher
Adm. Assistant
Ruth D. Howard

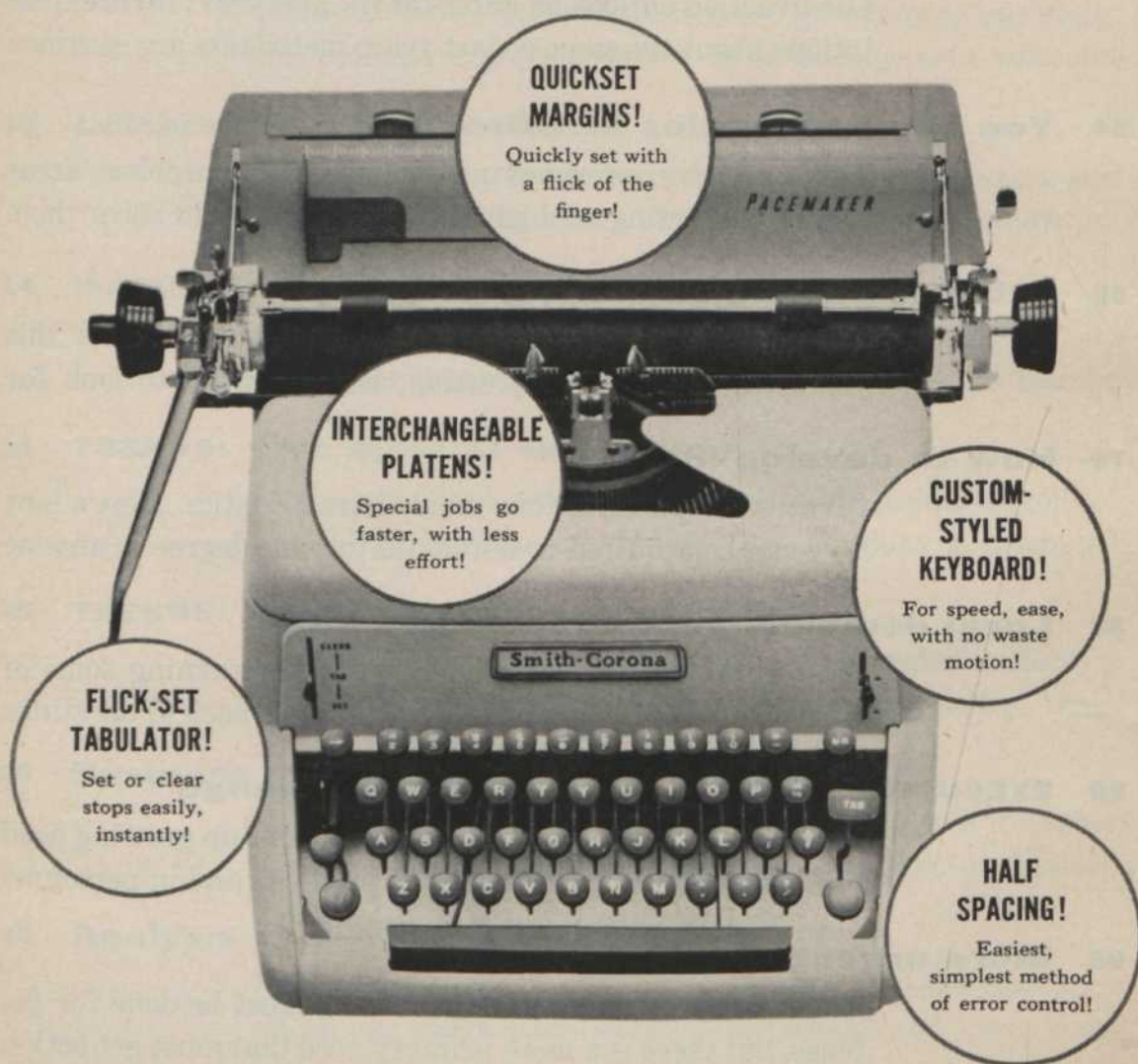
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Kenneth W. Medley
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Let Us Send You, With Our Compliments...

"AN ANSWER TO WORKER TENSION"

This Booklet Shows You How MUZAK Can
Increase Your Company's Profits

MUZAK Corporation would like to send you, without obligation, a copy of this booklet. It will prove of actual profit value to you... because it tells how 20 years of practical experience and scientific research have developed a simple way to cut operating costs to a degree clearly visible on a profit and loss statement.

The world has long been familiar with the powerful influence of music upon mind and body. But only in recent years have discoveries been made about the effect of music upon Worker Tension. And these have been applied by MUZAK to the development of an entirely new kind of music: *functional work music*.

A Tool of Modern Management

MUZAK is functional because it is created to perform a specific practical purpose. Like air conditioning, sound-proofing, fluorescent lighting, "music-while-you-work" by MUZAK has won a permanent place as a tool of modern management. It more than pays its way in increased efficiency and productivity. For example, typical of many such results, it has...

- Increased production 20% in the drafting department of the Fischer Lime and Cement Company of Memphis, resulting in a saving of \$300 to \$400 a month in one department alone.
- Increased production 9% and decreased absenteeism 7% for the Loft Candy Company of Long Island City.
- Reduced clerical errors in the auditing department of the City National Bank & Trust Company of Kansas City, by 11%.
- Increased production 5% and decreased absenteeism 5% for the National Gypsum Company of Buffalo.

- Increased output per operator in the work clothes plant of Bayly Manufacturing Company of Denver, by 10%.
- Increased key punch production of the Mississippi Power & Light Company's IBM operators to an 11-year high — two months after it was installed; and maintained this high level.

Why MUZAK Is So Effective In Reducing Worker Tension

MUZAK accomplishes such results because it is not "just any music." It is selected, recorded, and *scientifically* designed to do exactly what its subscribers report that it *does* do.

Every selection in MUZAK'S 10 million dollar library has been especially arranged, orchestrated and recorded for MUZAK'S own use... the only such collection of non-distracting background music available in the world.

It is scientifically programmed — based upon time of day, place, and type of employee activity. A different program for office workers and one for factory workers; also one for hotels, restaurants, banks, and other public places. Each program is in accordance with the psychological effects of music on people — as determined by 20 years of on-the-job experience.

Why MUZAK Is So Different From Ordinary "WORK MUSIC"

How can "just music" accomplish results like these? The

answer is simple. It can't! For MUZAK is not "just music." MUZAK has spent twenty years perfecting a *scientific* way to meet the minimum requirements for a successful work-music program:

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YOU NEED SCIENTIFIC PROGRAMMING to suit the time of day, place and type of work activity. Each MUZAK program is based on 20 years' study of the effects of music on people.

YOU NEED "CONTROLLED DYNAMICS" to penetrate noise barriers, mask out unwanted noise, without becoming distractingly loud — a technique which MUZAK has pioneered.

YOU NEED A COMPLETELY AUTOMATIC SYSTEM which avoids the cost of assigning personnel to purchase and store records or tapes, determine schedules, operate and maintain equipment. A flick of the switch starts MUZAK.

These four major MUZAK "exclusives" tell you why ordinary "background music" just cannot accomplish what MUZAK'S scientifically planned service can do for you.

Simply Mail The Coupon...
to learn about the
successful experiences of
upwards of 20,000
progressively managed
companies

Why not find out what MUZAK may be able to do for your company? Simply mail the coupon... and without the slightest obligation you will receive a copy of "An Answer to Worker Tension," MUZAK Corporation, Dept. 61, 229 Fourth Avenue, New York City 3.



MUZAK Does So Much... For So Many Kinds of Business

OFFICES find that MUZAK relieves the tensions caused by "noise fatigue" in rooms filled with the clatter of office machines. MUZAK penetrates noise barriers, masks out unwanted sounds.

FACTORIES AND PLANTS note a definite improvement in production and

efficiency. They also report less internal friction.

BANKS find it pays to provide MUZAK both to customers and to employees. It creates a "nice to do business here" atmosphere... and, by relieving Worker Tension, aids concentration of clerical workers.

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Type of Business..... No. of Employees.....

Street

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►ECONOMY'S IN breath-catching phase.

That means conditions aren't as favorable for business as they have been.

But current adjustment is seen as a short-term phenomenon--a great new boom's expected to begin in about 3 years.

Meanwhile, what can you do to keep your business strong and get ready for the boom ahead?

How can you spot management weaknesses and correct them?

To find answers, NATION'S BUSINESS asked specialists, economists, management consultants.

Their advice?

See page 42.

►CONGRESS WILL BE DOMINATED by two factors:

1. Implications of Russia's new technological advancements.

2. Coming November elections.

Involved: All 435 House of Representative seats, one third of Senate seats.

Here are some key issues businessmen will want to watch:

Government spending--An increase is expected.

Congress will be inclined to boost Administration's proposals.

Federal debt limit--May be raised later in the session above current \$275 billion limit.

Taxes--You can count on some adjustments of the tax law. Reductions for individuals is possibility.

Education--Broad new program of aid will unfold this month.

You can expect proposal to include federal subsidies for study in math, science fields.

For details on these and other issues --labor monopoly power, farm subsidies, etc.--see page 29.

►VITAL NATIONAL ISSUES affecting business will be given airing next month.

Group of U. S. Chamber officials, including Chamber President Philip M. Talbott, will fly to 12 cities, hold special issue clinics with local business and civic leaders.

These meetings will focus business

attention on taxes, government economy, tariffs, labor law, budget, national defense.

Here's where sessions will be held:

Charlotte, N. C., Feb. 10; Boston on the 12th, New York City on the 13th, Cleveland on the 14th, Milwaukee on the 17th, Omaha on the 18th, Denver on the 19th, Portland, Ore., on the 21st.

Phoenix on the 24th, Long Beach, Cal., on the 25th, New Orleans on the 27th, and Jacksonville, Fla., on the 28th.

Watch local newspapers for announcement of meeting location.

►WATCH UNEMPLOYMENT figures.

Government economists, officials are waiting to see if unemployment climbs as high as 4½ to 5 million in the next month or two.

If that happens--insiders are saying now--you can expect big pressure for government to do something to stimulate economy.

What action is likely?

Tax cut, for one thing.

For whom?

Some officials would like to trim taxes for business in an effort to boost new investment--to create jobs.

But this view's seldom expressed in public.

Most likely action--because it's more politically palatable on Capitol Hill--would be tax cuts for individuals.

►SPENDING IS CLIMBING faster than federal budget receipts.

Here are the figures:

Net budget receipts so far this fiscal year are 4.8 per cent higher than same period year ago.

But expenditures are running 9.1 per cent higher.

Meaning?

Chances for a budget surplus of \$1.5 billion previously predicted for next July--end of fiscal '58--are growing slimmer.

Item:

Military spending so far in fiscal 1958 is up about 14 per cent.

Federal outgo for other programs so far is up 3 per cent.

What about next year, fiscal 1959?

President will announce plans to Congress this month. At that time

also you'll find out if President thinks federal finance will go into the red this year.

►TAX COLLECTIONS will fall below \$73.5 billion previously expected by U. S. Budget Bureau.

Why?

Business profits are below Bureau's predictions.

Here are the figures:

Year ago government estimated 1957 would bring in \$22 billion from corporate profits.

Figure last fall was revised down to \$21.1 billion.

Final figure's likely to be lower than \$21 billion.

Here's record of one large firm which illustrates:

Company's sales were boosted a little during the year but costs of doing business were up more.

Result: Profits dived 5.7 per cent and taxes paid by the company dropped 10.7 per cent.

Total U. S. corporate tax liability continues to slip downward from the peak reached in late 1956.

What about personal income taxes?

Here's the story:

Individuals paid a \$32.2 billion federal tax bill in 1956.

They paid another \$35.6 billion last year.

Now they're expected--according to latest official government estimates--to pay \$38.1 billion tax bill.

Will that figure hold up?

Probably not--insiders now think total will be close but is likely to be short of the goal.

In his budget message to Congress this month, President will reveal newest official outlook.

►VITAL INFORMATION on consumer expectations will be ready this month.

Research team at University of Michigan is getting ready new data on how consumers look at 1958, how they plan to spend.

►1958 SHAPES UP as a turbulent year for labor-management relations.

That's view of Labor Department officials.

They point out that more labor contracts will terminate this year than last.

Among these:

Contracts between auto management and the powerful United Automobile Workers.

For picture of key negotiations, see page 38.

Management, in face of less advantageous business conditions, will resist union pressures for wage hikes, shorter work week.

Expected result: More strikes.

Note: Observers also look for more raiding between unions for members, more intensive organizing, more picketing, more boycotts.

On Capitol Hill, there'll be a move to enact legislation to correct conditions revealed by labor rackets investigation.

►RUSSIA'S NEXT TARGETS will be economic rather than scientific.

That's thinking of U. S. specialists on communist world strategy.

They say:

1. Coming months will see mounting Soviet effort to alienate U. S. from its free world allies.

Charges of U. S. domination of Western European trade and development will figure in this campaign.

Reds will be looking for opportunities to dramatize any weaknesses which develop in our own economy.

2. Russia will try to sabotage U. S. stake in the European Common Market plan.

3. Reds will step up their drive to lure less developed nations with offers of one-shot foreign aid, short cuts to industrialization via the Soviet pattern.

Note: Indonesia is an important area to watch for this kind of communist pressure.

4. Communist China (and Russia) will make spectacular bids for bigger markets in the Far East, striving to undersell the U. S.

Soviets will send more teams of technicians, economists, industrial planners into areas deemed ripe for economic--and eventually political--conquest.

Some analysts believe Russia may be planning something big for Africa, an

area where Reds have not yet turned on full pressure of their economic offensive.

►RUSSIA FEARS the potential of the European Common Market and Free Trade Area.

Her fears are based on realization that, through such programs, Europe will move closer to, not away from, the American genius of production and distribution.

One international economist tells NATION'S BUSINESS:

The Common Market could open incredible new opportunities for U. S. business.

Here are some specific points:

Demand for U. S.-made industrial equipment and tools will be enormous.

Demand for U. S. private investment capital will be great.

Item: Already many U. S. companies are racing to get in on the Common Market ground floor.

Its first-step tariff reduction of 5 per cent will become effective in January 1959.

►BUSINESSMEN WILL BE looking forward to results of the 1960 Census.

Census data are useful in business planning, contain much of value for market analysts.

Officials here say pressure for adding market-type questions to next census is already great.

Special committees are working now to determine what questions should cover, what should not be included.

►WEIGHING PROSPECTS for a hard-sell year ahead, high cost of making mistakes worries many businessmen.

Look at these facts from records of one manufacturing firm:

If company should lose money on any project or product, it would have to boost total sales \$13.64 to make up for each \$1 lost.

Last year's ratio was \$12.72 for each \$1.

Figures show only a trend, will vary with each company, each industry.

Note: What steps can a company take to boost sales efficiency in the year ahead?

Question's answered by a specialist on page 54.

►CONSIDER THESE FACTS in planning business future:

New household formations in years ahead will pick up, provide powerful force for higher business volume.

Note these trends:

Between 1950-55 new household formations averaged 833,000 per year.

Census Bureau projections show average for 1955-60 will be 778,000.

For 1960-65, average will pick up to 861,000 per year.

During 1965-70 you'll see about 1.1 million new households started each year.

►BOOM IN CREDIT CARDS is likely.

Tax lawyers say more companies will use them so employees' business expenses can be billed directly to company.

This will reduce size of expense account money businessmen will have to list on federal tax forms next year.

►TRENDS: U. S. atomic work force numbers 100,000--employed in fields ranging from missiles to medicine....

Special advisory committee is re-examining U. S. stockpile program. ODM Director Gordon Gray expects report this month. Involved is \$7.4 billion. Report will influence its future....

Library of Congress has thousands of untranslated Soviet scientific publications. Only about 30 out of estimated 1,200 received are translated regularly.

Survey by Federation of Tax Administrators shows 21 states boosted rates on income and excise taxes in past year....

All levels of government are stepping up recruiting of professional personnel. American Society for Public Administration says salaries are going up....

More than half the 15 million Americans 65 and older are getting pensions today. National Industrial Conference Board survey shows only 1 out of 8 persons older than 65 got pension benefits 10 years ago....

Consumer installment credit outstanding rose only \$85 million in latest month compared to \$104 million last year, \$266 million year before.

"SMALL BUSINESS, U.S.A."

ON FILM—

a study of the factors in
the success—or failure—
of a group of small
retailers, a wholesaler,
and a manufacturer

Why one man succeeds in business while another fails is the subject of Dun & Bradstreet's new film, "Small Business, U.S.A."

Scene of action is a business block in a small town. The case history study traces the ups and downs, the ins and outs of the businesses located along the town's Main Street for a number of years. Their stories are seen through the eyes of an accountant, a lawyer, a banker and a Dun & Bradstreet reporter.

The 30-minute black and white 16 mm film will be released in January, 1958. Ideal for luncheon and business meetings, it is supplied at a distributor's booking charge of \$2.75 to interested educational, business, religious or social organizations. Use the coupon below to order the film for your next meeting. Please indicate three preferences as to booking dates.

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Letters from businessmen

For sales managers

We think your article "You Can Get Your Ideas Across," which was published in your December issue, has a great deal of useful information that can be used by our sales managers, and if possible, would like to order 100 reprints.

H. M. SHANAHAN
Administrative Assistant,
Central Regional Sales Office,
Ford Motor Company,
Kansas City, Mo.

Questions education stand

We are wondering if it would be possible for you to explain the philosophy behind the magazine's stand and the stand of the Chamber of Commerce of the United States against federal aid to education. It is rather difficult to explain to students that the U. S. Chamber opposes federal aid to education, especially in a period when the defense of our country rests on the education that the boys and girls are receiving.

Do we educate boys and girls for one locality and often find a majority of the graduates seeking positions or actually working in another part of the country?

FRANK W. HULSART
Superintendent,
Glidden-Ralston Community School,
Glidden, Iowa

►It is well known that the federal government's chief source of money is through taxation, and a costly process is involved in the federal government's taking money from the people of Glidden, for example, and then returning it to them as though it were a gift. It is our belief that the people of any community can make better decisions concerning their education needs than can someone in a bureau in Washington.

For headaches

Our biggest headache in the Transit Authority is to harness our employees' abilities to transport the city's riding public more dependably, safely and comfortably. The problems confronting us are manifold, but we keep trying to solve them.

Maybe, we reason, our employees need more aid in applying techniques of problem-solving.

We especially liked your article, "How to Simplify a Problem" [June 1957].

Would you be so kind as to sanction our reprinting this article for

distribution to our supervisory personnel?

VINCENT R. STAATS
Assistant Superintendent,
New York City Transit Authority

►Permission granted.

Lost, and wanted back

I've mislaid two issues of your excellent magazine. They are January and October 1957. Since I keep this file in my desk for constant reference, I want it complete, so enclosed is my check and I'll ask you to mail me a copy of each.

Without a doubt NATION'S BUSINESS contains more practical and usable information per issue than any other of the 12 business publications I subscribe to.

VERNE LANE
President,
Executive Research Institute,
Houston, Tex.

Where are sales?

You have an article in the December issue entitled "Next Boom Three Years Away." In the opening paragraph it says, "Retail business is ahead of last year." Whoever is the source of that statement is just plain nuts. Good businessmen are down 15 per cent, fair ones 25 per cent, from there—50 per cent down.

VINCE BARRETT
Albany, Ore.

►Not all lines of business, nor all sections of the country have been sharing equally in the country's growth. But Assistant Secretary of Commerce Frederick H. Mueller was correct in saying that, for the country as a whole, 1957 retail sales were holding up. Nationally, 1956 retail sales averaged \$15.8 billion a month. Up through November the 1957 monthly average was \$16.6 billion.

Cancel meetings

Will you please send me six copies of "You Can Cancel Most Meetings" [November].

I would also like, at this time, to enter an order for a year's subscription starting December 1 to NATION'S BUSINESS.

J. J. EAGAN
Southwest Regional Manager,
Westinghouse Appliance Sales,
St. Louis, Mo.

Above standard

Members of my staff and I have found the article "Where Fringe Benefits are Headed" [November] extremely well done and of consid-



X



Fashion's a wow in Wahoo

via Air EXpress with exclusive door-to-store delivery!

America's so-called "sticks" are going the way of the Toonerville Trolley. From Wahoo, Nebraska, to Waites Corner, Massachusetts, today's ladies want Fifth Avenue fashions. Not tomorrow. But right now. So an alert dress manufacturer expands his sales by bringing style to small-size, big-money towns, coast to coast, overnight! And he does it via Air EXpress, the *only complete door-to-store* air shipping service to thousands of cities and towns!

You can expand your market in exactly the same way — no matter what you make, or where. Air EXpress gives you every metropolis in the nation, plus some 21,000 off-airline communities! And it's Air EXpress that puts at your beck and call 10,212 daily flights on America's scheduled airlines, 13,500 trucks (many

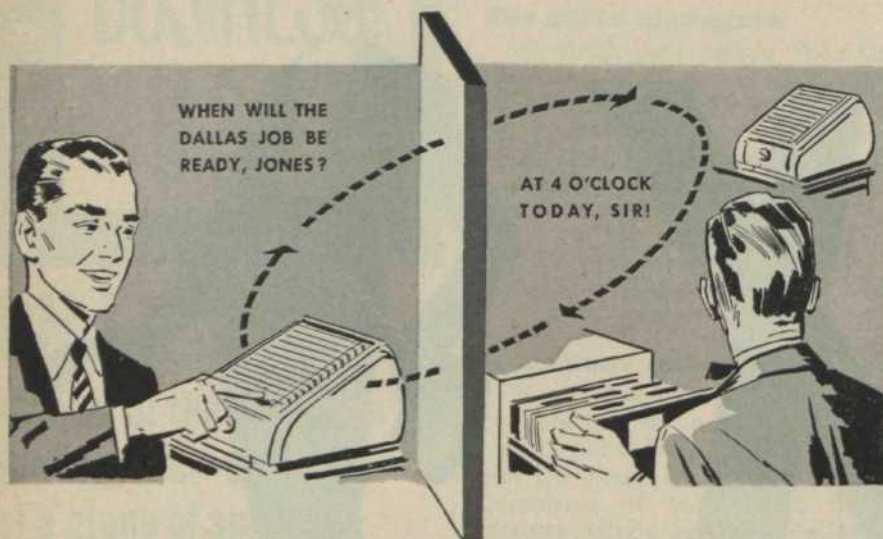
radio controlled), a nationwide private wire system, a personnel of 42,000. Yet Air EXpress is inexpensive; for instance, a 15 lb. shipment from New York to Fitchburg, Massachusetts costs only \$2.75 with Air EXpress — \$3.05 less than any other complete air shipping method. Explore all the facts. Call Air EXpress.

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☐ Locating Personnel

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Firm _____

Address _____

City _____

In Canada—331 Barlett Ave., Toronto

erable value in helping us shape our thoughts in this area.

Although we are accustomed to looking to your publication for many thoughtful and skillfully presented articles, it was my thought that you might enjoy knowing that we consider the November issue above even your usual high standard of publication.

JOHN POST

Manager,
Industrial Relations Department,
Continental Oil Company,
Houston, Tex.

Not on newsstands

Through the circulating copy which we have in the office, I have read with great interest the November 1957 issue of your magazine.

While I usually enjoy your informative publication, this particular issue has several articles which I would like to keep for my personal reference in the course of business. Since your magazine is not available on the newsstands, I would greatly appreciate your informing me how I can secure a copy of that issue.

J. P. ORTEGA

Export Advertising,
E. I. du Pont de Nemours & Company
Wilmington, Del.

►Nation's Business is sold by subscription only. Copies of back issues, if available, may be obtained at 60 cents each.

Pinpointed

Again NATION'S BUSINESS has hit the target. The article "Pinpoint Personnel Strength" [December] describes the performance review program of the American Cyanamid Company which broadly resembles our own. Please send us 100 reprints.

CHARLES J. PRANGE
Railway Express Agency,
New York, N. Y.

Training leaders

In connection with preparing our current annual report to retail food stores, we noticed some interesting figures in an issue of NATION'S BUSINESS. We would like to quote several figures from "How Your Customers Come and Go" [May].

E. N. DURLAND
A. C. Nielsen Company,
Chicago, Ill.

►Permission granted.

Outstanding

I have just had an opportunity of reading the article, "Training Future Sales Leaders," and consider it very outstanding. Enclosed please find our check for 200 copies.

LEO H. LIPSCOMB
Vice President—Sales,
I.T.E. Circuit Breaker Company,
Philadelphia, Pa.

What NLRB says

"What the Labor Board is Saying" [August] certainly was pre-

sented in attractive fashion, and we have had numerous favorable comments.

BOYD LEEDOM

Chairman,
National Labor Relations Board,
Washington, D. C.

A training aid

We were quite impressed with the article entitled "How to Simplify a Problem."

With your permission, we should like to make copies of this article... for handout in connection with our management training program here at Fisher Body.

C. F. MORAN

Fisher Body Division,
General Motors Corporation,
Detroit, Mich.

One not enough

In sending our order to you, we should have stated that we needed two copies of NATION'S BUSINESS. The circulation on this magazine is so great in our plant that two copies are required to get the circulation around in time.

P. B. SCOTT

Kingsport Press, Inc.,
Kingsport, Tenn.

Private foreign aid

I have read with a great deal of interest the article "This Foreign Aid Helps Everyone" [August], and I wish to congratulate you and at the same time express my heartiest thanks for what your magazine has done in behalf of Cuba. I believe that articles such as that are very enlightening to American capitalists who seek to invest in countries offering substantial inducements and great opportunities.

J. MARTINEZ SAENZ
President,
Banco Nacional de Cuba,
Havana, Cuba

Secretary writes

In NATION'S BUSINESS, November, 1957, I read with interest the article entitled "Job Analysis Saves Managers' Time." I quote the following short paragraph from that article (giving suggestions on how to save time):

"Get better secretarial help—this is mentioned frequently, but with no specific how-to suggestions."

I can give you a how-to suggestion. Management can get better secretaries if they will spread the word about Certified Professional Secretaries—1227 CPS in the whole United States! There should be many thousands of them and if management wants them, management should demand them. Given an incentive, all secretaries will study to improve themselves and better serve management.

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Fight coming over U.S. atom role

Peacetime development of nuclear power reaches critical juncture

ANOTHER BITTER FIGHT over our atomic energy policy lies dead ahead in Congress.

Hearings in February before the Joint Committee on Atomic Energy will harden the issues, lay out battle-lines, foreshadow the outcome.

A key decision on the extent of federal control over the peaceful atom is a likely result.

The big new element in the picture is a spreading concern over a serious lag in the U. S. reactor development program. This has tended to shift the balance between conservative and liberal forces in favor of more government assistance to the atomic industry. As one leading legislator told *NATION'S BUSINESS*, the essential question now is not whether more aid will be extended, but how it will be done.

Congress in effect will shortly choose between more liberal aid to privately pushed projects, or direct government construction of atomic powerplants—a possibility which is distasteful to the Administration and electric utilities alike.

A final program embodying something of both plans appears probable. Sponsors of private development will be trying to keep government building within moderate bounds to forestall an expansion of public power and to keep the bestowal of public aid from leading to stranglehold controls.

How did atomic power arrive at this critical juncture?

The answer lies in unexpected development costs. Equipment makers ran up against serious design and manufacturing problems. Utilities in turn found that atomic projects compared more and more unfavorably with conventional generating plants. Such troubles led to the elimination of some projects and postponements

of completion dates on others. The industry's leaders came to Washington in November to talk informally about problems behind closed doors with members of the Joint Committee. Early in December they repeated this for the Atomic Energy Commission.

Losses are not only greater than atomic businesses had bargained on, but the day of profit seems to be receding steadily further into the future. Experts now talk of economic feasibility being at least a decade away; just recently, this was foreseen within a decade.

Atomic equipment makers in particular are demanding a better deal. They have been operating under fixed-price contracts—in a field where no one could know what costs would be on many untried projects.

Another spur to policy changes came during adjournment travel by congressmen in Europe. This crystallized the thinking of Democrats on the Atomic Committee that the U. S. lead on atomic development is seriously threatened by Britain and Russia. Russia's sputnik triumphs provided additional concern.

An understanding of the Administration's basic program is essential background for the unfolding debate. All parties agree the U. S. itself will not need atomic fuels for many years because of plentiful coal deposits. The present approach, championed by AEC Chairman Lewis L. Strauss, therefore seeks to amass technical know-how by intensive research. Experimental reactors get priority emphasis. As the best of these are proved out, they form the basis for big power-producing prototypes.

Electric power groups are given first crack at building these full scale plants. Mr. Strauss makes it



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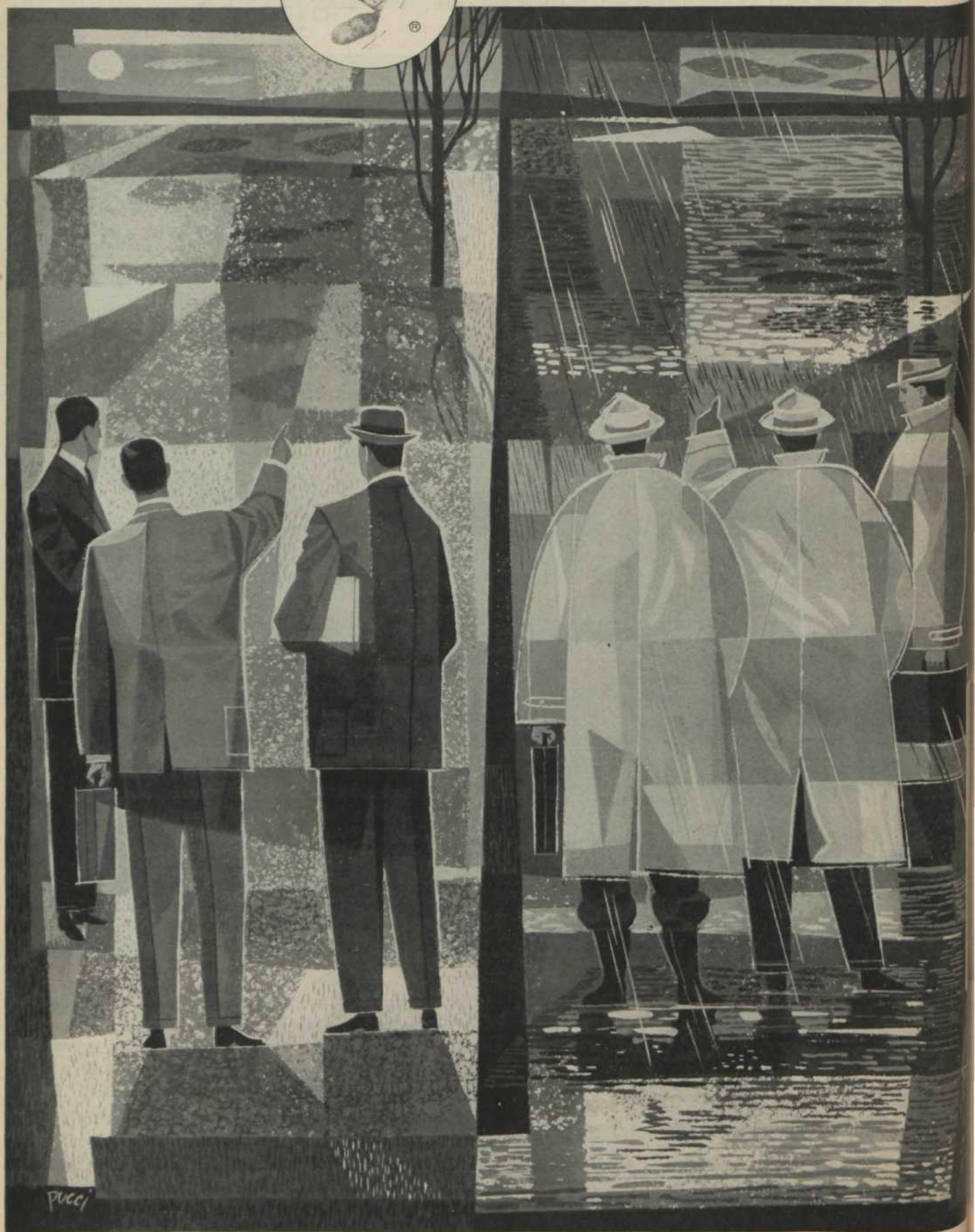
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WHY INDUSTRY IS



MOVING TO CHESSIE'S RAILWAY

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The committee chosen by the company to pick the new factory site made their decision on a sunny day. When they returned after a few days of wet weather they found several inches of water covering much of the tract.

It seemed they would have to give up this otherwise ideal property and they turned to the Chesapeake and Ohio Industrial Development Department for help in finding an alternate location. But before proposing a different site, the C&O Industrial Representative asked the committee to let him take a look at the site they themselves had chosen.

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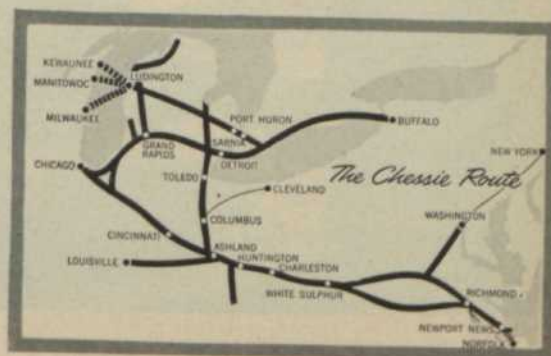
There are many ways in which the specialists of C&O's Industrial Development Department can help you. They have an intimate knowledge of local labor, taxation, geology, water. And they have an extensive personal acquaintance that can be invaluable when you need a trustworthy emissary to carry out delicate negotiations. This confidential service is available to you without cost. Write or phone: Wayne C. Fletcher, Director of Industrial Development, 1103 C&O Building, Huntington, West Virginia.

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clear that, if they ever fail to follow through on promising types, the AEC itself will undertake construction.

The objective of this program, in Mr. Strauss' own words, is "to establish, at the earliest feasible date, an independent nuclear power industry—independent in all its stages from concept to operation—independent from government domination or government subsidy."

Chief criticisms of this tack by Joint Committee Democrats are that, 1, it dissipates initiative and shifts leadership to an industry that has no urgent need for atomic electricity, 2, it results in a drawn-out program and, 3, it produces few proven kilowatt-producing plants.

Rep. Carl T. Durham, chairman of the Joint Atomic Committee and a conservative Democrat from North Carolina, stresses that the nation must observe three objectives in developing atomic reactors: its own long-range power needs, military demands for propulsion and generating systems, and the pressing power requirements of friendly nations. He cites the last two factors to explain why his committee has sought to accelerate the development pace.

There is widespread conviction that foreign-policy considerations force an attempt to provide A-plants to U. S. allies and underdeveloped nations. And there is also a fear among American manufacturers that the British, if not the Russians, will move ahead with proven plants so rapidly that they will run away with atomic export markets.

A call for a new atomic policy came in October from Columbia University's American Assembly. Sixty-four business, government and labor leaders came out for a thorough review of the U. S. program and a clear formulation of its objectives in terms of both our own needs and the requirements of our foreign policy. It made these points:

- The dependence of private industry upon government assistance in atomic power development is incapable.
- The injection of the public-vs.-private dispute into the atomic field at this time is unnecessary and unfortunate.
- A truce is possible which will not prejudice the respective roles of private and public power groups.
- The necessary government assistance should be available to both private and publicly owned power agencies without discrimination.

Mr. Strauss also has appeared to be seeking a more effective approach.

In a recent speech he stated it is time to carry the government-industry partnership program another step forward. He said additional commercial-size atomic plants might now be justified and revealed that the AEC is studying proposals for an expanded program.

The Administration is thus likely to push for expanded help to private development. This could take the form of free nuclear fuels or bigger grants to offset research expenses. Rep. James E. Van Zandt (R., Pa.) has also suggested rapid tax amortization of such costs.

Mr. Van Zandt's views should be especially noted since he is successor to W. Sterling Cole, former Republican representative from New York, as defender of the private viewpoint in the crucial House arena. Mr. Cole himself, shortly before leaving for Vienna to direct the new International Atomic Energy Agency, declared that "the time has arrived when we must all recognize that federal subsidies are essential to a broad development program."

Last summer proposals for direct federal construction of atomic power plants handily passed the Senate and were only narrowly beaten in the House. This narrow margin could be wiped out.

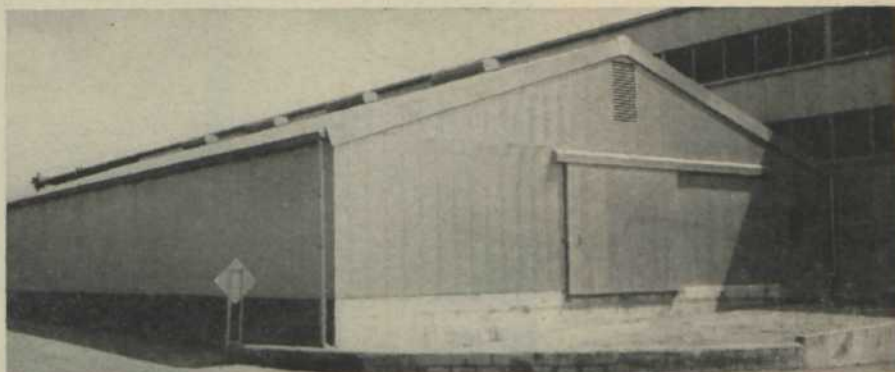
The role of Democrats like Mr. Durham and Sen. Clinton P. Anderson of New Mexico thus becomes crucial. Party strategists feel they have scored their political points by forcing general recognition of a need to streamline and speed atomic development. Even Sen. Albert Gore (D., Tenn.), most vocal advocate of a crash program, may ease his position. He is being prevailed upon to compromise.

Attempts to economize on non-defense programs could slow the drive for bigger reactor outlays, but appear unlikely to block it altogether. Liberals will play up national security aspects of the atomic program in order to sidestep this obstacle. Actually, relatively little is being spent for reactors alone. AEC's total budget this fiscal year is \$2.2 billion. Of this, reactor development costs by themselves are estimated at \$354 million—two thirds going for military systems.

The final outcome will depend heavily on Representative Durham, who takes one of the strongest positions in Congress against expanded government activity in electric power. He makes a clear distinction between an atomic machine's development and its utilization. Mr. Durham feels that government must help with the former function but should leave utilization to the electric companies.—JAMES N. SITES

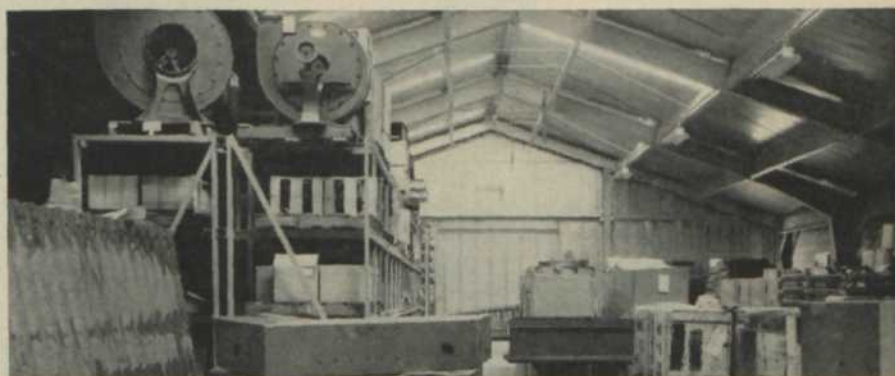
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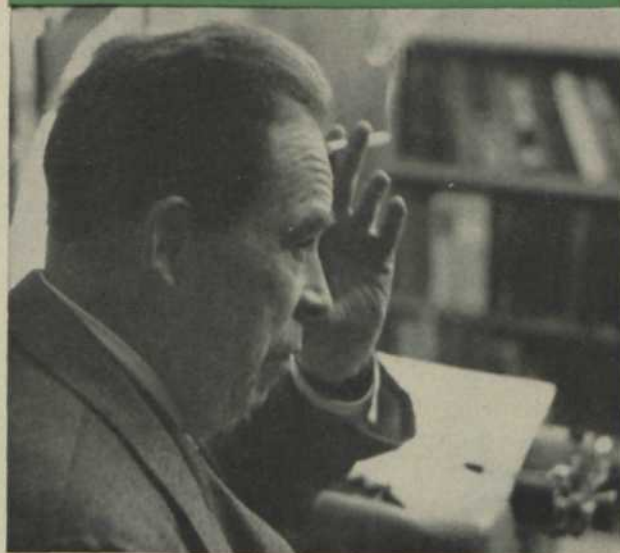
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Trends

of Nation's Business



FRED J. MAROON

THE STATE OF THE NATION BY FELIX MORLEY

Scientific triumph of Russia shows a paradox in education

A DISTURBING PARADOX in comparative education is revealed by Russia's triumph with the Sputniks. How is it that the communists, who decry competition, emphasize it so strongly in their schools while we, claiming to believe in free enterprise, have gone so far to eliminate the competitive spirit from the classrooms?

Of the facts involved there is, unfortunately, no longer any question. Official publications belatedly tell us that in the Soviet schools there is no promotion until the pupil has passed examinations specifically designed to weed out the unfit. The Secretary of Health, Education and Welfare, Mr. Marion B. Folsom, says that our entire public school curriculum must be re-examined, "if we are to hold our own with Russia." It is now freely admitted that in Russian elementary education there is "a pace of schoolwork far more rigorous than any encountered in the United States," to quote a warning that went ignored when made by a competent American observer nearly 20 years ago.

By contrast, thoughtful parents in this country are well aware that in many of our public schools annual promotion is now all but automatic, with no relation to individual effort. The basic subjects, even those as fundamental as the three R's, are subordinated to social activities agreeably labeled

"life adjustment" or "group awareness." Intellectual competition is viewed with mistrust and anything more than perfunctory discipline is frowned upon as frustrating. The net result, shattering to our national self-esteem, is that the Russians have forged ahead of us in those resources of scientific manpower where we once thought ourselves particularly competent.



The redeeming feature of our scholastic deficiency is that Americans are clearly in revolt against the system that produced it. In November a Gallup poll disclosed that 89 per cent of those interviewed favor making mathematics a required subject throughout high school, as do the Russians. About the same time the headmaster of a hard-driving and expensive Washington private school revealed that applications there have soared to 1,000 for every 75 boys the school can take. The other day a small college with national reputation announced that it will henceforth admit no student who cannot pass a test in algebra, "which should have been accomplished in secondary school." There is no lack of demand for competitive education in the United States. The failure is in the supply.

Several factors have combined to create this anomalous situation. Perhaps the most influential is the extreme to which the plausible theory of progressive education has been carried. Starting

State of the nation

from the reasonable thesis that schooling should be enjoyable, the trend in public education has gone on to eliminate all coercion, all task-work and almost all sharply competitive training. Unfortunately this misguided kindness has altogether failed to make the lives of teachers, pupils or parents happier. We do not need psychologists to tell us that the child whose will is never crossed is the one who makes himself and others miserable.

Extreme progressivism has done much to make the high school diploma virtually meaningless as a measure of individual achievement. But material prosperity has also played an important part in the subtle degradation of the public schools. When even elementary education was a privilege, obtainable by few, real sacrifices were made to attain it and value rose accordingly. As a right, available and even compulsory for all, there is no such appreciation. Although we have long outgrown the little red schoolhouse it is no mere nostalgia to say that those who trudged there in all sorts of weather gained values not provided by door-to-door bus delivery. Nor is there any architect skillful enough to build a love of learning into the country club accommodations currently deemed desirable as an educational setting.

Still a third source of depreciation is found in the current philosophy of teacher training. The emphasis has shifted from knowledge of subject matter to deftness in presentation. The whole public school system is top-heavy with educationists who know how but not what to teach. Talent is no longer as important as the mere number of credits which teachers achieve in mandatory courses concerned with procedures rather than with content. Undoubtedly techniques are useful, but they do not of themselves make teachers any more than typing ability of itself creates authors. In the assembly line production of mechanically qualified educationists is found one of the primary reasons for the malaise in our public schools.

The American educational deterioration, now painfully focused by Russia's scientific achievement, is thus in no major respect due to any lack of funds. Some of the decline in standards, on the contrary, is probably a result of too lavish, or at least too careless, expenditure. It follows that the problem will not be solved, and could even be intensified, by merely pouring more money into public education.

Yet the naive belief that money alone can cure what is wrong with our schools is widespread, and is constantly promoted by a powerful and well organized lobby. Undoubtedly there will be concerted effort to obtain more federal aid for educa-

tion from the session of Congress now convening. At the grass roots there is a healthy skepticism about the educational frills which money can provide. Many a local bond issue, for more luxurious school facilities, has been turned down by community plebiscites in recent months. But this revolt in the localities has merely strengthened the demand that Washington take over financing which voters see no need to impose directly upon themselves.

Federal aid in this field of course runs counter to that faith in local self-government on which our federal system is based. Nevertheless, intervention by Washington must be expected if the incompetence of our public education, by contrast with that of Soviet Russia, is as pronounced as evidence indicates. For this means that the problem is no longer local, but is becoming one of national defense.

There is, however, a procedure—wholly consistent with American traditions—whereby Washington could do much to improve the schools without any additional budgetary charge. And it is a method which would be welcomed by parents and teachers alike.

All that is necessary is for the Department of Health, Education and Welfare first to define, and then promote, the minimum curriculum deemed necessary for schooling worthy of that name. Secretary Folsom points out that every Russian schoolchild must take five years of mathematics beyond arithmetic, and is relegated to a vocational school if he cannot make the grade. But he stops short of advocating any method for restoring the competitive spirit for American youngsters. Yet it is really a duty, rather than merely proper, for the presumably expert Office of Education to do just this.

Once a standard, hard-hitting, curriculum is recommended it would be up to the localities to decide how much of it, if any, they would adopt. But they would at least have an index for guidance. They would have a basis for constructive reform more substantial than the wholly fallacious idea that good education can be built into expensive buildings. And public attention would be focused on methods, which are the heart of the problem.

To get results in this field the incoming Congress need only ask two simple questions, but should insist that schoolmen now on the federal payroll provide unequivocal answers: Why is it that the spirit of competition has been so sharply and disastrously curtailed in an institution as fundamental as the American public school? Why is it that the better colleges and universities, instead of welcoming graduates of the public schools, are coming to regard them, by and large, as inferior material for every type of professional training?

Both questions need to be asked—and answered.



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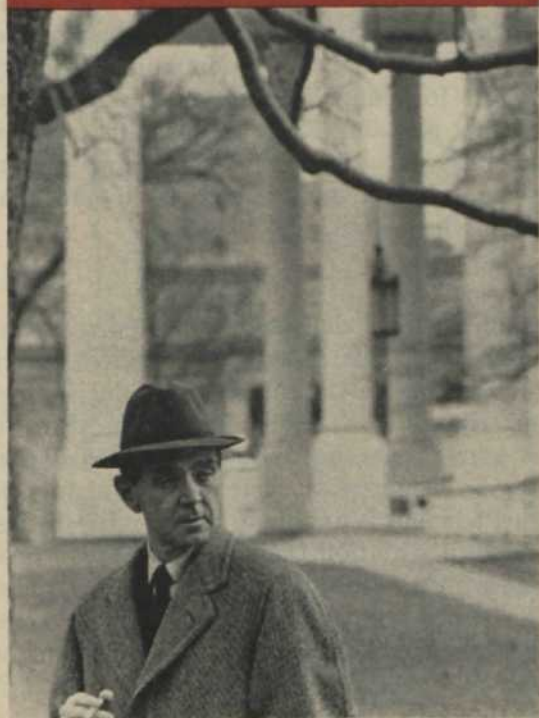
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Trends

of Nation's Business



ROBERT PHILLIPS

WASHINGTON MOOD

BY EDWARD T. FOLLIARD

Russia dictates program as Congress session begins

THE POWER of Russia to influence United States policy was never more apparent than in this new year of 1958. Legislation, foreign policy, the national budget, our taxes—all these, and more, are being determined to a great extent by what goes on in Moscow.

How different it would be if Russia were friendly or aloof as in the days of the Romanoff Czars! Such a thought can transport one into a reverie of almost limitless possibilities. With the threat of war removed—or, to use Churchill's phrase, with America relieved of the need to maintain a balance of terror—the \$40-billion-a-year cost of

arms could be reduced drastically. Taxes would drop accordingly. It would be a different world, indeed.

But that is dream stuff, far removed from the reality of Khrushchev's "We will bury you," of Russia's far-ranging missiles with H-bomb warheads, and of the Kremlin's urge to dominate the world with its communist philosophy.

Our senators and representatives are keenly aware of this harsh reality as the gavels fall for the second session of the Eighty-fifth Congress. Their mood is a mixture of concern, anger and chagrin. The embarrassment they felt over Russia's Sputnik I and Sputnik II was compounded by the flop of our own Vanguard satellite on Dec. 6. They have returned to Washington with a powerful determination that this country must catch up with Russia and, if possible, surpass her in the satellite-missile field, no matter how many billions it may cost.

Offhand an observer is tempted to say that this eagerness to pour out money represents a startling change from the past session of Congress. The dominant theme at that time, was budget-cutting, with the Democrats in full cry against the Eisenhower Administration's heavy spending. In a way there has been a change, but that doesn't mean that the economy drive is ended.



The outlook now is that the White House rather than Congress will take the lead in stressing economy. President Eisenhower, who is really up against it to keep the Treasury out of the red, has hopes of doing so despite his remark that the American people "will not sacrifice security to worship a balanced budget." He will tell Congress that there must be real retrenchment in some areas of government in order to spend what must be spent in the arms race with Russia.

In a speech in Oklahoma City before his cerebral attack, the President talked about the need of killing or curtailing some programs, and said:

"This will be one of the hardest and most distasteful tasks that the coming session of Congress will face, and pressure groups will wail in anguish."

The armed forces, though they will get more money, will be expected to make some sacrifices.

Secretary of Defense Neil McElroy has announced that he will recommend closing down a number of military and naval bases or installations at home. This would seem a sensible thing to do, considering that many of them have ceased to have any real value in the defense picture. Yet Mr. McElroy's proposals will bring a storm of protests from the communities affected and from their representatives in Congress.

It is expected, too, that the Administration will try to cut down on river and harbor improvements. This could bring an ever louder "wail of anguish."

The Administration will again ask Congress to

Washington mood

put the Post Office Department on a pay-as-you-go basis. This would mean raising postal rates enough to wipe out the department's deficit, which now amounts to about \$657 million a year.

The Democrats have now controlled Congress since the 1954 midterm elections. So far the warnings about a split government—President Eisenhower's cry about two drivers at the wheel and landing in a ditch, for example—have not been borne out.

However, we probably will become much more conscious of our split government in this session. It looks as if there will be a good deal of partisanship, more perhaps than Washington has seen in the five years of the Eisenhower Administration.

The Democrats believe that President Eisenhower and his Republicans have let the country down. This is not merely a partisan view; they talk the same way privately as they do publicly. They argue that the President withheld information about Russia's progress with missiles; information gotten from our intelligence agencies. They say that he let the American people drift along in a dream world, blissfully unaware that for the first time in history the United States was becoming vulnerable to nuclear weapons that could be fired from Soviet territory. The Democrats think that this was unpardonable.

Even now, the Democrats say, there seems to be no sense of urgency in the Eisenhower Administration, no willingness to tell the people that the United States faces a great crisis.

This argument points up a sharp difference between the two parties. The Republicans have long criticized the Democrats for being "fearmongers," "prophets of gloom and doom." They used this criticism in the 1952 campaign, saying the Democrats had kept the country in a perpetual state of crisis. The Republicans themselves dislike the word crisis, and are loath ever to acknowledge that a crisis exists. They contend that the United States can get things done without frightening the people.

In the session ahead, the Democrats will try to show that they are far more concerned about America's security than are the dollar-conscious Republicans. Moreover, they will press for a bigger defense program even if it threatens to unbalance the budget.

In the past three months, there has been a great confusion of testimony about the relative progress of the United States and Russia in the satellite-missile field.

Having talked with officials in the Pentagon and in other agencies, I think the fairest summary of

the situation has come from C. C. Furnas. A former Assistant Secretary of Defense for Research and Development and now chancellor of the University of Buffalo, Mr. Furnas ought to know what he is talking about. Here is his estimate of the situation, as contained in an article in *The Washington Post*:

"In satellites, the Russians are substantially ahead of us. In some components of guided missiles, they are ahead; in others, we are. In the total ballistic missiles systems, they are somewhat ahead of us at present. However, with the manned aircraft of the Strategic Air Command constantly on the alert for immediate action and with our foreign bases and our Navy air armada, we are still distinctly ahead in over-all retaliatory power, and, hence, we still have the tools in hand for maintaining the peace..."

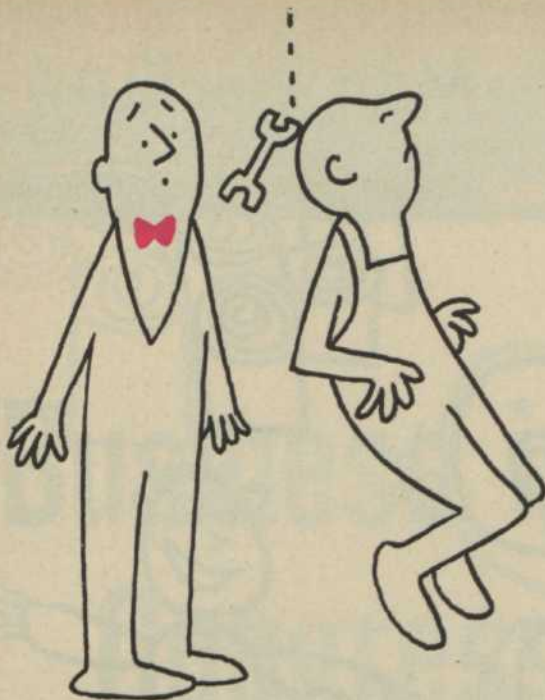
Although national defense is expected to dominate thinking in this session of Congress, there will be much else on the minds of the legislators. President Eisenhower's latest illness, the third in two and a half years, has brought renewed clamor for action by Congress to clear up what should be done if a President is unable to perform his duties.

The kind of situation that worries a lot of people is one where a President is stricken to a point where he can't talk or write or otherwise communicate with others. Who is to say then that he has reached a stage of "inability" and that it is time for the Vice President to take over? It is a question that the Constitution leaves unanswered.

Meantime, it should be pointed out that a lot of nonsense has been written about goings-on at the White House. After the President was stricken, it was reported, for example, that the so-called palace guard was prodding him into action and thus creating the impression that he was much better off physically than was actually the case. The impression was given that Sherman Adams and Jim Hagerty yanked the covers off him in the morning, dragged him to his office, told him to show the country he was vigorous and on the job.

The truth is—and every habitue of the White House knows it—that it was the President himself who insisted on activity in spite of the doctors' order that he take "several weeks" of rest. Nobody suggested to him that he go to Thanksgiving Day church services three days after he was stricken. It was his own idea. It was his idea, too, to practice golf shots in the White House back yard, to preside at Cabinet meetings, to travel between Washington and Gettysburg on week ends and to fly to Paris for the NATO meeting in December.

The President has acted like a man embarrassed by his illness, and determined to show up those who called on him to resign.



1.

J. B. was a puzzled man—and had a right to be.

His firm had loads of workmen's comp and liability.
And yet his rate of accidents climbed up—it fairly soared—
Insurance costs went far beyond what he could well afford.



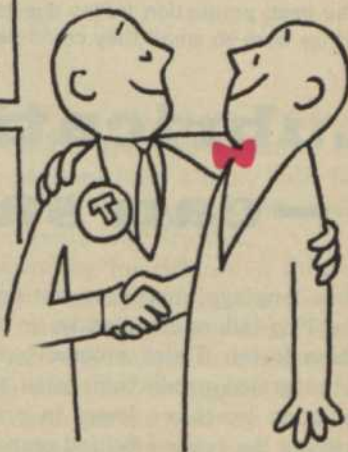
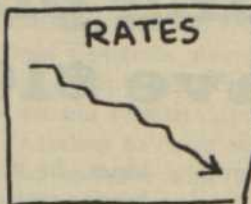
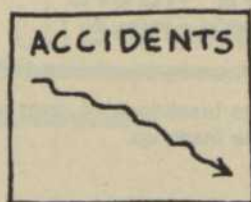
2.

So J. B. called a Travelers man, who said, "Your wisest course
Is calling up *our* firm—we stop your trouble at its source.
Our Travelers safety engineers will help eliminate
Unsafe machines and methods to improve your safety rate."



3.

"Our handy claim locations—all two-hundred-fifty-one—
Assure you speedy service; we can get there on the run."
So J. B. took The Travelers plan, his buy was most astute;
Now all his men are safer and his rates are low to boot.



4.

If you'd like *your* insurance to start working right away
Just call your friendly Travelers man—why put it off a day?
He'll build a business program that will fit you to a "T"—
He'll help you make that safer plant an actuality.

THE TRAVELERS

INSURANCE COMPANIES, HARTFORD 15, CONNECTICUT

All forms of business and personal insurance including Life • Accident • Group • Fire • Marine • Automobile • Casualty • Bonds

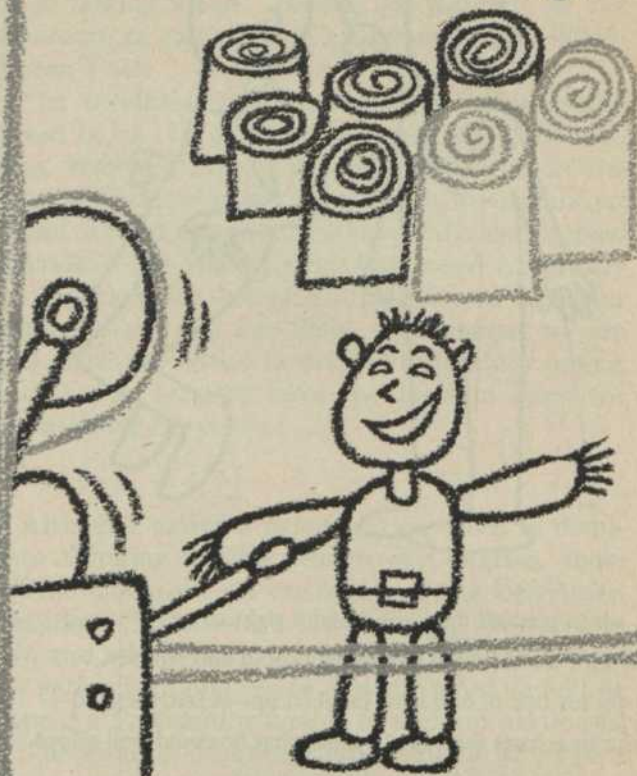
Man Waiting



3 unproductive hours
for man and machine

In the past, production losses due to breakdown of dryer roll bearings were so small they could be made up.

Man Working



Output - 25 tons per hour
worth \$130 per ton

Today shut down of high-speed machines puts production behind by hundreds of tons per hour—quickly piles up losses.

Lubricating plan cuts downtime —can save \$10,000 in 3 hours

Not so long ago, machines shut down by bearing failure could make up production losses. Today volume output and integrated production mean that production losses are losses in profit. These are the reasons behind management's growing concern with lubrication methods in their plants.

Take this example from the paper industry: they used to figure \$500 for a bearing, \$500 for labor (idle time and repair crew) and expected to make up losses on the two or three hours downtime. Today, high speed machines produce twenty-five tons of paper per hour worth \$130 per ton. You can't ignore \$3,000 an hour in production

losses. In this case, the cost of the bearing replacement could run as high as \$10,000.

Lubrication problems differ with specific industries, but the basic principles are the same. Many companies are finding that the services of a plant lubrication engineer pay off. His services can extend part life, eliminate production losses, reduce rejects, simplify lubricant inventories and otherwise add to income. Some companies delegate lubrication responsibility to engineers or plant personnel who also perform other duties.

In both cases, Texaco's organization of Lubrication Engineers is function-

ing in all 48 States, as consultants in outlining a practical approach to these problems. A more detailed discussion is available in an enlightening booklet: "Management Practices That Control Costs Via Organized Lubrication." Write The Texas Company, 135 E. 42nd St., New York 17, N. Y., Dept. N10.



LUBRICATION IS A MAJOR FACTOR IN COST CONTROL
(PARTS, INVENTORY, PRODUCTION, DOWNTIME, MAINTENANCE)



ROBERT PHILLIPS

Business issues crowd Congress' schedule

How Sputnik and coming elections will affect legislation in the coming year

LEGISLATION affecting businessmen will make up a large part of the staggering work load—some say the heaviest since World War II—piled up for the new session of Congress.

Government spending, tax policy, farm price supports, foreign trade and aid, and labor controls are only a few of the major issues awaiting the returning lawmakers. Indications are that the session will be dominated by two factors:

- ▶ The recent—and likely continuing—evidence of Russian advances in missiles, rockets and other technical fields.

- ▶ The fact that the entire House of Representatives and one third of the Senate come up for election in November.

These factors, taken together, make certain that the next seven months on Capitol Hill will be busy—and frequently acrimonious.

Developments in the Soviet Union will have major impact in shaping congressional action on the budget, on relations with U. S. allies, education policy, and many other items. The oncoming elections will have equally obvious and vital impact on the shape of legislation to come.

The return of the senators and representatives will mark, in effect, the beginning of the 1958 political campaign. Practically every speech and action from

then on will be made with an eye on the November balloting. Since the record of the first session of the current Congress was comparatively slight, both Republicans and Democrats will feel an impulse to make the second session more politically fruitful.

Pressures to boost spending for defense, a mission bound to have wide political appeal in the months ahead, will likely spill over into other areas. There they will run head on into the feeling that higher defense spending must be offset by economies in other programs. Members of both parties will try to shape farm price support legislation into the best possible voter bait. Demands for legislation to curb union power, spurred by the revelations of the Senate Labor Rackets Investigating Committee, will come up against the reluctance of many big city lawmakers to estrange union officials.

Congressmen from areas with an interest in promoting foreign trade will join battle with those from protectionist areas. Administration efforts to turn federal spending programs back to the states will meet strong opposition from representatives of the big cities and the poorer states, who fear their constituents might suffer as a result of any such turnback.

Democrats, heartened by recent election victories in Wisconsin, New Jersey, New York, Pennsylvania and other states, will attempt to develop issues likely

to increase their present majorities in the Senate and House. In a comparatively quiet way, they will attempt to spread among voters the strong belief that the Administration has shown lassitude and poor judgment in national security matters.

Republicans can be expected to break away from the Administration's leadership time and again in their search for the magic formula for recapturing congressional control. Already the strategists for 1958 House and Senate G.O.P. campaigns—largely conservative Republicans who feel that modern Republicanism of the Eisenhower brand has hurt their own standing—have passed the word that G.O.P. congressmen should "vote your own district" and not worry too much about supporting White House proposals.

The entire picture will be complicated by periodic skirmishing over civil rights. Republican leaders, recognizing this as an issue that can keep the Democrats divided and off balance, seem likely to attempt in several ways to force action on civil rights. Northern Democrats, worried over Republican headway among northern Negro voters, may press proposals of their own. Southern Democrats, entrenched in many powerful committee posts in both Senate and House, may try to block large amounts of legislation desired in various other fields by both the northern Democrats and the Republicans.

Adding all this up, the outlook is not too bright for Administration proposals. The President, barred from seeking a third term, will find it difficult to bring pressure. Only in the field of defense financing can he expect firm bipartisan support—and even this will not be free of wrangling over who's to blame.

The legislative ferment will be encouraged by a dozen or more major investigations. The McClellan labor racketeering committee will explore new fields. The Kefauver Senate judiciary subcommittee will pursue its probe of administered prices. A House judiciary subcommittee will look into the way the Justice Department negotiates consent decrees. From a House commerce subcommittee will come a major inquiry into the policies of the federal regulatory agencies such as the Federal Communications Commission and the Civil Aeronautics Board.

The Senate Finance Committee will resume its study of government fiscal and monetary policy, while the Senate Banking Committee will consider interest rates on government loans.

Several groups will, of course, be studying various aspects of the defense picture.

Here is the outlook on some of the major issues that are ahead:

Taxes: Here are prospects for cuts; national defense a big factor

Democrats and Republicans would like to cut taxes in an election year but agree that, as of the moment, budget prospects seem to rule this out. With spending remaining high or even going up, and with revenues lagging a little as corporate profits drop, the budget surplus, if there is one, doesn't seem big enough to the party leaders to permit a major tax cut with any safety. Many key Administration officials and congressional Democratic leaders even argue that, with the nation so concerned over defense policy, a tax cut now might react against the party that puts it through. Many voters would feel that the party was putting politics above security.

Nonetheless, both parties will watch the spending and revenue picture as it shapes up in the late spring. If security worries seem to have quieted and a big enough budget surplus seems in sight, Congress may decide to press ahead with tax cuts effective this summer. Individual taxpayers will get the most, if not all, of any cut, but a few tidbits might be left for small businessmen, excise-taxed industries or corporations generally.

The House Ways and Means Committee has already scheduled a month of hearings, starting early in January, on all phases of tax policy, including plans for individual income tax cuts, relief for small business, changes to help self-employed persons, and methods of closing tax loopholes. Committee officials say these hearings will go ahead, and that the committee will file the testimony away for possible action at some later point.

In the meantime, two rather technical but far-reaching tax bills may continue on their way. Pending in the Senate Finance Committee, already passed by the House, is a comprehensive excise tax overhaul bill. It levies a few new taxes, takes off a few, makes major changes in refund and exemption

McClellan Committee hears witness in its investigation of union racketeering in U. S.



procedures, provides new bases for levying stock and communications taxes, and changes dozens of other technical and administrative provisions of the excise tax laws. Practically all these changes are aimed at making the excises less burdensome for businessmen and consumers.

Out of the Ways and Means Committee and awaiting House action is another mammoth bill changing the tax treatment—sometimes easing, sometimes tightening—of such items as life insurance payments, discount bonds, unsecured loans to employers by pension trusts, annuities paid to officials of unions and trade associations, charity deductions, and many more.

Spending: Economy-minded forces will meet strong opposition

One of the toughest fights of the coming year will be a repeat of the battle of 1957—over the size of the federal budget. Economy sentiment was clearly in the saddle this past year. Now pressure for spending is more intense.

There are two main reasons for this. One is widespread concern over recent Soviet scientific and technological advances—developments which will bring pressure for more spending for missiles and other defense items, for aid to science and engineering, and for other related projects.

The other big reason is the impending election. The urge will be greater to try for specific spending projects popular with the folks back home. Just one example: The House is all set to try to pass a big public works authorization bill, stymied last year by the economy drive.

Early this fall there was some talk that the Administration would shoot for a \$70 billion budget for the fiscal year starting July 1, 1958, compared with the \$72 billion estimated for the current fiscal year. But then, even before the President called for a considerable increase in defense spending, most Budget Bureau officials were admitting this was out of the question. Now, most Administration officials say they'll do well if they send Congress a budget not much higher than this year's projected figure. Requests for appropriations—future spending authority, as contrasted with anticipated actual spending—will certainly be several billion dollars above last year's \$73.3 billion request.

But the economy pressures will be great, too. Last year's economy drive was strong enough to have quite a bit of momentum left. Many groups will argue that the need for higher defense outlays makes major economies in nondefense programs more necessary than ever. While agreement is likely on this general maxim, the rub will come when the Administration and Congress try applying it to specific programs.

The need to cut spending in nondefense areas may lend extra urgency to a new but important Adminis-

tration effort—to start turning some federal spending programs back to the states. A group of federal officials and governors have agreed that a start should be made by eliminating federal spending on vocational education, facilities to treat water pollution, and a few other programs. The Administration will probably ask Congress to okay these recommendations, but already groups of mayors, labor leaders, and others are mobilizing in opposition.

Some increase in the debt limit may again be necessary soon after Congress returns, but key senators vow they'll fight to keep the increase to a minimum and to make sure it is only a temporary increase to tide the Treasury over the next few months, until spring tax returns start coming in.

Labor: Unions will struggle to block moves to curb their power

Probably one of the bitterest struggles will be on labor legislation. The disclosures of the McClellan Committee have given new strength to the drive to curb the power of union officials, and the Administration has said it would recommend several proposals.

The White House will seek registration, detailed reporting and public disclosure of the financial operations of unions and their pension and welfare funds. It will ask legislation to guarantee free secret elections of union officers at least once every four years, and a method for union members to get their locals out of extended trusteeship by officials appointed by the international union. It hopes to restrict blackmail picketing—picketing by a union which does not represent a substantial number of employees but is trying to force the employers to recognize it anyhow. And Secretary of Labor James P. Mitchell has said he will submit proposals to restrict the activities of middlemen in labor-management relations.

There is much sentiment in Congress for going considerably further—bringing unions under the anti-trust laws, enacting a national right-to-work law barring the union shop, outlawing political use of union funds, providing tighter controls on secondary boycotts, requiring secret ballot voting on strike calls.

The unions, recognizing the sentiment for strong antiunion legislation, will undoubtedly try to block most labor legislation, for fear that tough provisions will be added as amendments on the House or Senate floor to mild committee-approved bills. Many observers feel the unions will have their hands so full combating this legislation that they will have comparatively little time to push again their bill to expand federal minimum wage law coverage. However, hearings have been held in both Senate and House subcommittees on this measure, a Senate labor subcommittee has approved a version of an expanded coverage bill, and further action in this field remains a good possibility. *(continued on next page)*



Democratic leaders Rayburn and Johnson leave White House after top-level talk with President Eisenhower on legislative goals

Farm: Administration ponders soil bank change, lower supports

With both parties preoccupied with the political winds of the farm belt, farm legislation will get a heated going-over. The Administration has indicated it will try for legislation to drop still lower—from the present 75 per cent down to 60 per cent or less—the price support floor on cotton, corn, wheat, rice and peanuts. It also promises to try to eliminate from all price support laws the so-called escalator formula that automatically forces the Secretary of Agriculture to raise support levels just when he succeeds in reducing existing surpluses.

Many politicians think the elimination of the escalator clause is the Administration's real immediate goal. This change would be less drastic immediately in its effect on support prices than lower support floors would be, but in the long run could be infinitely more significant.

The Administration may also recommend cutting back or even eliminating after 1958 the so-called acreage reserve part of the soil bank. This might be coupled with higher payments for the long-term conservation reserve program of putting idle land into grass and trees. Many Agriculture Department officials feel that farmers are using the acreage reserve as a crop-insurance scheme rather than as a production-cutting program as intended.

Democratic farm policy planners, hoping to capitalize on reported farm discontent, have been working to develop some program of higher supports. There's been persistent talk of a Democratic scheme of direct payments to farmers to make up the difference between a high support level and low market prices, and there's also been talk of two-price plans, under which a high support level would be fixed for domes-

tically marketed crops and little or no support for exports. However, there's no real indication that the Democrats have been able to agree on anything other than to be against whatever the Agriculture Department is for. Many Republicans seem likely to take this view, too, and the outlook for the Administration's farm recommendations are not too bright.

Education: Science needs put new element in school aid fight

The Administration is committed—and Congress is certain to be sympathetic—to a new program of aiding education, with emphasis on science and engineering to spur efforts to overtake Soviet progress in missiles and allied technical fields. Administration officials have been talking about help for science schools, grants toward the cost of teaching salaries, huge scholarship and fellowship programs and other steps. Less clear is whether the new program will be proposed in addition to the Administration's former multibillion dollar program of grants and loans to help school construction, or whether it would be substituted for this program, twice rejected by Congress.

Foreign trade: Trade Act extension will cause many arguments

A fight is shaping up over the reciprocal trade program, under which the government can lower U. S. tariffs in return for tariff concessions from other countries. This program expires in June, and the Administration will seek extension and further liberalization. Reports are it will ask a five-year extension, with authority to reduce tariffs an additional five per cent each year. At the same time, the President is expected to renew his request that the U. S. join the Organization for Trade Cooperation, a new body to organize and police tariff-cutting agreements.

Both advocates and opponents of lower trade barriers are preparing tremendous campaigns to sell the public and Congress on their respective points of view. Those who would lower barriers argue that the new common market agreements being negotiated in Europe and other areas make it more necessary than ever that the U. S. have extra bargaining power on tariffs. They also claim that recent Russian achievements make it imperative that this country solidify its alliances overseas.

On the other hand, protectionists cite the need for higher tariffs and quotas to protect U. S. factories

and workers from import floods. They'll seek major amendments restricting the President's power to overturn relief recommendations of the Tariff Commission.

Economic controls:

Unlikely unless conditions change

Despite Sen. Homer E. Capehart's talk of the need for standby wage-price controls, there's little real pressure in the Administration or in Congress for new economic controls of any sort. Of course, a really big federal spending splurge, with resulting renewal of strong inflationary pressures, could bring control talk in earnest.

Social security: Election year increases becoming set pattern

There's considerable pressure for another election-year liberalizing of federal social security benefits. The AFL-CIO and other union and welfare groups are pushing for higher benefit payments, health care for old folks, and other changes, even though this might mean a higher tax rate and an enlarged wage base subject to taxes. Many Democrats and Republicans seem convinced of the vote-getting appeal of such moves.

Changes will be opposed, however, by many groups arguing that the social security trust fund is under already heavy financial strain as the result of the 1954 and 1956 benefit changes, and that the system should be given a chance to operate as it is a while longer before new expensive changes are considered.

Antitrust: Efforts to pass premerger notification bill expected

Undoubtedly there'll be a new effort to push through the long-stalled bill to require large firms to give the government advance notice of their merger plans. This measure, approved by the House Judiciary Committee, has been bottled up in the Rules Committee; Judiciary Committee chairman Emanuel Celler of New York says he will try to shake it loose.

A strong drive for action on the so-called equality of opportunity bill is also likely. This measure would limit the right of a seller charged with unfair price discrimination to use as a defense the claim that he sold to one customer at a price lower than that charged other customers in order to meet the price of another seller.

Housing: Forces building up against renewed, expanded program

The public housing program comes up for extension this year. The usual pressures to continue and expand it will be evident, but a stronger-than-usual effort to cut it back or kill it also seems to be shaping up. The urban renewal program will also come in for economy attack. The Administration promises new efforts to boost the interest rate ceiling on loans guaranteed by the Veterans Administration. Key congressmen promise that, instead, Congress will pass once more the bill vetoed by the President this past summer, extending both the direct loan and loan guaranty programs for veterans.

Other issues: Highways, postal rates, public power projects

Grass root pressures may impel many lawmakers to seek more mileage for the interstate highway program, but the Administration will oppose any expansion at present. Battling over proposals to ban billboards along the new interstate roads will be renewed.

Senate approval seems likely—though with some changes—for a House-passed bill to boost postal rates. With an election in the offing, Democrats may try for some new federal power projects such as the Hells Canyon scheme. The Administration plans to submit recommendations to cut the future cost of veterans benefits, and this will clash head-on with attempts by veterans groups to enact pensions for practically all veterans at 65.

Gas producers and gas consumer representatives are taking new soundings to assess the chances for the controversial bill to relax federal controls over gas producers' prices. The House Banking Committee will tackle a mammoth and occasionally controversial Senate-passed bill to overhaul the nation's banking laws. New efforts will be made to liberalize the lending programs of the Small Business Administration and possibly to set up some new government program of low-cost business financing.—CHARLES B. SEIB

Analysis of worker turnover pays off

Three ideas feature new approach to old problem; point to more effective methods

MANAGEMENT IS DEVELOPING a fresh viewpoint on the old problem of employee turnover.

It repudiates several long-cherished dogmas of personnel administration. And it points toward techniques of turnover control that will be more effective, and in many cases less costly, than prevailing practices.

Three ideas distinguish the new approach to turnover which is evolving at centers like Harvard Business School and Massachusetts Institute of Technology, in leading management consultant firms, and in business organizations ranging from firms such as Standard Oil Co. (New Jersey), Cadillac Motor Car Division of General Motors Corporation, and International Harvester Company, to sturdy smaller firms such as Harwood Manufacturing Corp., Marion, Va.

They are:

The time-honored system of measuring a company's turnover in terms of a gross statistical rate is meaningless and misleading. "Management," says Prof. Sumner Slichter of Harvard, "should pay less attention to quantitative measurement and more attention to qualitative analysis of turnover."

Real problem may be: too little.....rather than too much turnover



Reducing the turnover rate to zero—the theoretical goal of many personnel policies—is as undesirable as it is unattainable. Some turnover is healthy; it brings in new blood, prevents stagnation of the organization. Proper analysis may bring to light areas of your operation in which the real problem is too little, rather than too much turnover.

You can't eliminate harmful turnover simply by raising wages across the board and piling on fringe benefits. The reasons why scientists and engineers leave an organization are often quite different from those which motivate executives to switch to other firms. Negative irritations

which are easily removed may be more important than pay scales in determining how many skilled workers you lose.

Basic to all three of these ideas is the conviction that management must dig below the surface of a company-wide turnover rate before it can begin to cope intelligently with the problems involved. You need to know not merely how many employees are quitting but who is leaving and why.

Your personnel office can work out the details of a turnover analysis system that fits the specific needs of your company. Management's concern is that the system cover these points:

1. A breakdown of total turnover into precise job categories.

A large industrial firm found that the cost of turnover (and therefore the amount that management can wisely afford to spend in combating it) varies sharply with the type of employee involved. Figuring in both direct and indirect costs—recruiting, training, orientation, personnel office paperwork, lost production time, etc.—this company computed the cost of losing a common laborer at \$126.42. When an average semi-skilled employee left, profits were damaged by \$556.92. But when a skilled worker who had completed a four-year apprenticeship course moved on, the cost jumped to \$18,778.01.

You don't have to make such a detailed analysis to recognize that the loss of one executive, scientist, engineer, technician or supervisor is much more costly to the company than the loss of 100 unskilled workers. Yet this obvious truth is often ignored in the calculation of an all-inclusive turnover rate.

2. The quality of the employees who are leaving the company.

"It makes a great deal of difference," Professor Slichter points out, "whether you are losing your best employees or your worst employees." A turnover rate that seems high, when viewed in gross numbers, may prove to be a desirable one if it consists largely of misfits who never should have been hired in the first place, or of marginal workers who find it difficult to meet production standards.

But if your really promising executives and technicians, or your above-standard production workers, are the ones who are leaving, you may have serious trouble even if the over-all quit rate is low.

3. The age and experience level of employees who quit.

Paul Pigors, professor of industrial management at MIT, points out that a balanced age structure is essential to the long-run health of any organization. In management jobs particularly, a heavy concentration in any particular age bracket tends to choke promotion ladders and expose the company to severe difficulties when that class graduates into retirement. The irregular waves of hiring that go with expansion programs tend to unbalance the age structure. Turnover which helps to bring the organization back into balance is desirable; turnover that accentuates age-distribution bulges is particularly hurtful.

By studying the experience level of departing employees you can find clues to whether your firm is undergoing more or less normal turnover, or whether something is seriously wrong in your personnel policies. Studies by International Harvester, Jersey Standard and others show that a high degree of mobility is characteristic of Americans during their first five years of job experience. (Roughly half of the employees who quit International Harvester are in their first year of experience.) After five years, employees tend to become much more stable. They don't change jobs without a good reason. This means that a high turnover rate among new employees, while it can and usually should be curbed, is not nearly as alarming as a high turnover rate among veteran workers.

4. Turnover breakdown by company organization.

Total company turnover should be broken down by plants, departments and units to show where the biggest losses are occurring. Cadillac has developed an excellent system

(continued on page 70)



What satellites cost the Russians

American expert on Russian system assesses Reds' recent gains, tells what problems lie ahead for them

A Nation's Business interview



Leon M. Herman, who was interviewed by the editors of *Nation's Business* in Washington, is widely regarded as one of this country's best informed authorities on the Soviet economic system. He is Chief of the USSR Section, Bureau of Foreign Commerce, U.S. Department of Commerce

Many businessmen are wondering just how strong the Soviet economy really is. What's your estimate of Russia's strength?

In the area of economic development, the USSR is continuing to make conspicuous strides.

The Soviet government is committed to the rapid amassing of economic strength. It has, furthermore, the absolute power necessary to hold private consumption in check. This makes it possible to plow back some 35 per cent of the national output into building and equipping new mills, plants, and mines. It is important to note, to begin with, that they are not aiming at a uniform rate of expansion.

First things come first. By Soviet standards, it is steel first, and textiles later. For example, steel output increased 270 per cent between 1940 and 1956; cotton textiles, less than 40 per cent. In the same period, urban population expanded by 45 per cent.

Does the Soviet Union have any realistic prospect of overtaking the United States industrially and agriculturally on the timetable which it has laid down?

As used by Soviet leaders, discussions about overtaking the United States in production are not really forecasts. They are slogans to help maintain morale among the population.

Meanwhile, the regime goes ahead and overtakes the U. S. effort in such fields as it deems necessary for its own self-preservation.

Less strategic areas are left in the realm of hope.

What about Soviet progress in the scientific field?

I have seen no evidence of significant scientific improvement in the areas related to public consumption and welfare.

In this area, the Soviet authorities don't seem to be in any hurry. They are content to wait for someone else to do the developing. You will recall that they came here in 1955 to buy our latest strains in hybrid corn and pedigreed cattle. They are also willing to import our Salk vaccine for immediate use as well as for setting up their own production. Here, too, the priorities in effect are not in favor of human welfare.

What are the soft spots in the Russian economy?

If by "soft spots" you mean the sectors that are not fully responsive to the Soviet method of forced-draught expansion, three areas could be singled out:

1. Agriculture output continues to fluctuate strongly. The 1957 grain harvest, for example, came to only three fourths of last year's crop. While basic needs will probably be met, there will certainly be less available for export and for stockpiling.

2. The flow of raw materials for industry seems to act as a brake on the rate of expansion. Not that the necessary raw materials are unavailable. The difficulty lies in the fact that the prime grades of minerals are running down in the western regions, and the promising deposits of fuel, power, and metals lie in the bleak, largely uninhabited areas of the East. To draw these areas into the main industrial complex will require

a considerable outlay of resources and some resettlement of population. The latter may require both time and a certain amount of inducement.

3. The supply of new labor is now running below known requirements. They are now in the lean years in this respect. The youngsters now entering the labor force, 16-18 years old, belong to the short crop of the war years. This shortage is expected to last until 1962. It has been estimated, for example, that the regime can count on only about 200,000 new recruits for industry a year; by comparison, some three years ago Soviet industry was absorbing recruits at the rate of 1 million a year.

Is Soviet worker productivity far behind that of the United States?

Labor productivity in Soviet industry is still quite low, but it is still lower in agriculture. Each working American farmer produces enough food to supply 17 nonfarm persons,

but his Soviet counterpart feeds only about two to three persons. Hence, agriculture absorbs 48 per cent of the labor force.

In industry, their current claims place their own productivity, on the average, at about 40 per cent of the U. S. level. It is not an exact figure, we know, because sometimes they place it at one third. On-the-spot observation seems to bear out the lower ratio. The western observer usually comes away with the impression that most operations in the Soviet Union seem to require about three times as many people, and that bonus payments seem to play a large part in stimulating a full effort by the labor force. This is one area in which, I presume, they will not press us in the near future.

What steps are the communists taking to raise output per worker?

Two things. First, the leadership takes no chances on the worker's

good will. They don't like to pay wages by the week or on a straight time basis. Wherever possible, they keep wages tied to output by paying labor on a piecework basis. To extract as much as possible, they, furthermore, maintain an elaborate system of premium piece rates, payable for various degrees of performance above the basic quotas.

Second, they intend to make gains in output per worker by mechanization. They complain of being especially handicapped by large numbers of auxiliary workers around every main operation. Since all initiative comes from the center, mechanization thus far tends to be applied only to the basic operation, ignoring all interrelated processes.

Is Russia's total output of goods overtaking our own?

Soviet industrial output is now roughly estimated at 40 per cent of (continued on page 91)

Red emphasis shows in fact that they make almost as many tools as U. S., but far fewer autos



Soviet Union is pouring its energies into fields it deems needed for self-preservation



Khrushchev: Steel first, textiles second . . . more clothing in 5 to 7 years . . . housing in 12



Soviet soft spots include undependable agriculture, raw material access, worker shortages

1958

NEW LABOR PROBLEMS

new ways to meet them

MANAGEMENT WILL TAKE a new approach to an increasing number of labor problems this year, and come up with some new solutions. Many employers will also run into new problems or find that old problems have a new look.

Main reasons for this are the changing rules of labor-management relations, the shifting union alliances stemming from the split in labor, disclosures of the Senate labor rackets investigation, possible labor legislation, and changing public and employee attitudes.

Forward-looking management already is trying to pinpoint some of the big problems ahead in the labor field, examining new factors which will create or influence them, trying to figure out what can be done best to protect the interests of their business, employees and customers. Employers are seeking answers to questions such as these:

- ▶ *Strikes*: Will labor strike for a shorter workweek? What are the new rules on strike tactics?
- ▶ *Organizing*: What can an employer say or do during an organizing drive?
- ▶ *Union raiding*: What can an employer do when one union seeks to replace another as bargaining agent of his employees?

- ▶ *Picketing*: How do the new rules on picketing apply?
- ▶ *Consumer boycotts*: How far may a union or employees go in promoting a boycott of an employer's products? In damaging the business in other ways?
- ▶ *Secondary boycotts*: What are the new restrictions on unions? What weaknesses in present law might be corrected?
- ▶ *Damage suits*: How and when may a business recover damages caused by a union?

Some new answers to these and other problems are coming from the National Labor Relations Board and the courts. Others may come from Congress in new legislation (see page 68).

How these general applications of rulings apply to specific problems is, of course, a matter for each business to determine with proper legal counsel.

Two 1958 situations will be most responsible for management's headaches in the labor field. One is the bitter interunion rivalry growing out of the new split in labor.

The other is the increased number of important wage negotiations in major industries, coupled with the shorter workweek demand and a stiffening management resistance to higher wage costs.

AFL-CIO's expulsion of the Teamsters, Bakery Workers and Laundry Workers on corruption charges will create special problems for many businesses whether or not they deal directly with these unions.

The Teamsters alone create something of a problem for almost everybody—both management and labor. The Teamsters not only are the country's largest union, with more than 1,300,000 members; they also are the most powerful because of their financial resources, the importance of trucking to business generally, and the strategic relationship and value of the Teamsters to other unions.

Businesses not directly involved with the expelled unions may be affected by new labor alliances and the shift in union power which is emerging. (See "New Alliances Will Shape Labor's Future," *NATION BUSINESS*, November 1957.)

This volatile situation will likely provoke more strikes, more raiding between unions for members, tougher bargaining, more intensive organizing, more picketing, more boycotts.

In the bargaining picture, key negotiations will involve the trucking and automobile industries. But important bargaining will also take place in electrical manufacturing, flat glass, aircraft, shipping, rubber and other industries. Probably in coal mining, too, where wages may be renegotiated on 60-day notice.

The outcome of these negotiations and the chances of strikes are important to the many suppliers and customers and to the economy at large as well as to the companies and industries directly involved.

Long-term contracts are involved in both the trucking and automobile manufacturing negotiations.

In trucking, six-year agreements with three more years to run are being reopened for wage changes on Feb. 1. They cover 175,000 employees of 4,000 over-the-road trucking firms in 26 midwestern, central and southern states stretching from the Canadian border to the Gulf and Atlantic coasts.

A strike halting almost all trucking across more than half the country is likely unless the operators reach a satisfactory wage settlement with a Teamster negotiating committee headed by James R. Hoffa, president-elect of the union and a major target of the Senate investigating committee.

In automobiles, Walter P. Reuther and his United Automobile Workers are trying to impose shorter working hours, with even higher take-home pay than is now paid for 40 hours, and other costly concessions. Three-year contracts expire in midyear.

Strikes

Strikes will likely increase this year because of the larger number of important bargaining situations and tougher bargaining on both sides.

Some strike tactics are being restricted under new interpretations of the Taft-Hartley labor law by NLRB. Final answers, of course, will come from the courts, with always the possibility that Congress may have more to say about them.

A union which loses its majority representation during a strike is particularly limited in strike-related activity.

In two recent decisions, NLRB held:

First, that a union which has been rejected by a

majority of the employees may not picket for recognition as bargaining agent.

Second, that it may not try to promote a consumer boycott of the employer's products or services to force recognition.

These are further discussed under picketing and consumer boycotts.

The question of an employer's right to insist that his labor contract call for a secret strike vote was recently argued before the Supreme Court in a case involving Borg-Warner. NLRB appealed the issue to the highest court after a lower court reversed a decision in which the Board viewed Borg-Warner's stand as a refusal to bargain in good faith with the United Automobile Workers.

The requirement of a government-supervised strike vote among all employees who would be called out by a strike was among President Eisenhower's 1954 proposals for amending the Taft-Hartley law.

Unions are not protected by Taft-Hartley when they engage in mass picketing or violence in connection with strikes, and individual strikers may be discharged for violence, threats of violence, or other serious misconduct.

State and local laws usually provide some relief in the way of court injunctions and police protection. Under federal and state laws, employers may also sue and sometimes collect for damages resulting from breach of contract or improper strike activity.

A striker who has been permanently replaced in his job during a strike for economic gains loses his right to the job when the strike is over and may not vote in a representation election. This Taft-Hartley provision has been attacked as a weapon which might be used to break a union. Labor will fight hard to get it repealed in any Taft-Hartley amendments Congress may pass.

In support of such repeal, labor is citing what happened in the United Rubber Workers' strike against O'Sullivan Rubber Corp. The strike began in May 1956, after wage negotiations deadlocked. Last October, 17 months later, NLRB conducted an election requested by employees (who wished to remove the union as bargaining agent) and by the management (which wished to determine whether the union represented a majority). Those strikers permanently replaced could not vote. *(continued on page 62)*

For the outlook
on labor legislation
see page 68

EXPECT THIS FROM EASIER MONEY

Here's how Federal Reserve credit policies will influence business in months ahead

BY MARCUS NADLER

SOME TIME IS BOUND to elapse before the Federal Reserve Board's easier credit policy begins to stimulate business.

Since the economy is essentially sound and the dynamic forces, such as the growth of population, rising living standards, and the fruits of research, continue to operate, the readjustment is not likely to go far or last long.

After some of the maladjustments have been corrected, business activity will resume its upward course and again reach new high levels.

The changed Federal Reserve credit policy, if supplemented in time by measures to increase the reserves of the banks, can play an important role in preventing the decline from going too far and in eventually reversing the trend.

To keep events of the next few months in proper perspective, a businessman will need to understand:

► The effects of the reversal of the tight money policy.

Such understanding will begin with a knowledge of:

► The reasons for tight money.

► The effects of tight money.

The lowering of the discount rate from $3\frac{1}{2}$ to three per cent by the Federal Reserve Bank of New York and three other Federal Reserve banks on Nov. 14 marked the end of the policy of credit restraint which started in the spring of 1955. During this period money rates increased sharply. The average market yield on Treasury bills rose from 1.17 per cent in February 1955 to 3.58 per cent in October 1957. The average yield on high-grade corporate bonds rose from 2.99 to 4.10 per cent, and the prime rate charged by commercial banks was raised in successive stages to $4\frac{1}{2}$ per cent.

Thus, at the end of October 1957 money rates had reached levels not seen in nearly 25 years.

Reasons for tight money

The reasons for the money stringency during the past two and one half years were, briefly:

1. Demand for long-term capital exceeded the supply of available savings. Savings rise slowly and even in prosperous years the normal annual rate of growth does not change greatly. This applies to voluntary savings in the form of savings deposits in commercial and sav-

ings banks and the purchase of savings and loan association shares as well as to contractual savings, such as life insurance premiums and contributions to pension funds. It applies also to savings in the form of repayment of debt.

On the other hand, the demand for new long-term capital can be explosive. For example, in 1955 and 1956 outstanding mortgages on non-farm one- to four-family houses increased by \$23.3 billion as against \$17.2 billion in the preceding two years. Expenditures for new plant and equipment by corporations totaled \$35 billion in 1956 and approximately \$37 billion in 1957. This compares with an average of \$27 billion in 1951-1955.

2. The credit policy of the Reserve authorities was restrictive. This was intended to prevent the substitution of expanded bank credit for savings, to check the boom which had assumed a magnitude that could not be long sustained, and to curb the forces of inflation in order to maintain the purchasing power of the dollar. The Reserve authorities, through open market sales of government obligations, increases in member bank reserve requirements and rises in the discount rate, can restrict the availability of bank credit and raise the cost of money.

To achieve these aims, the Reserve authorities used some of these measures and thereby held the expansion in the money supply—demand deposits adjusted plus currency outside the banks—to only 0.9 per cent in 1956 as against an expansion of 2.7 per cent in 1955. During the first nine months of 1957 the money supply actually declined by 0.4 per cent. On the other hand, between the third quarters of 1955 and 1957 the gross national product increased by 12 per cent.

Effects of tight money

These factors in combination were largely responsible for the tight money and the high rates of interest which prevailed during the past two and one half years.

Initially, the Federal Reserve credit policies were not fully effective in curbing the expansion of bank credit. This was due to the fact that in 1955 the banks had a large volume of short-term obligations which they could liquidate to obtain additional lendable funds. They were thus to a considerable extent immune from the credit policies of the Reserve authorities.

In 1956 and the first half of 1957 the banks sold a large amount of longer-term government securities, often at a substantial loss, in order to expand loans. Similarly, the non-



Dr. Marcus Nadler, internationally known economist, is professor of finance at the New York University Graduate School of Business Administration, and also director of the Institute of International Finance. Many businessmen in the New York area enroll as students in Dr. Nadler's course in "Current Money-Market Problems."

Dr. Nadler tells why—

Declining interest rates:

↓ will encourage sales of securities, increase working capital, stimulate construction

Rising bond prices:

↑ will make long-term credit more readily available

More and cheaper money can mean:

↑ Eventual boost to business activity in general

banking corporations sold billions of dollars of short-term government securities and also drew on their cash balances.

These operations in turn led to an increase in the turnover of bank deposits, which to a considerable extent offset the unusually small expansion in the money supply.

By the middle of 1957, however, the liquidity of the banks and the corporations had reached a point where it was not safe to reduce it any more. The increase in the velocity of bank deposits flattened out, and the restrictive policies of the Reserve authorities began to take effect. By early fall, 1957, the boom had ended. The index of physical volume of industrial production in October stood at 142 (1947-49=100) as compared with 145 in August and 147 in December 1956. Employment in manufacturing industries decreased, personal income declined, capital expenditures of corporations began to recede, and unfilled orders dropped sharply.

Commercial bank loans also reflected this change in the economic trend. Usually the volume of loans increases seasonally during the second half of the year. From July 3,

1957, to Nov. 13, 1957, however, industrial, commercial and agricultural loans of the weekly reporting member banks in 94 cities decreased by \$493 million as compared with an increase of \$1.6 billion during the corresponding period a year before.

Effects of the policy reversal

In analyzing this question it should be noted that the approach of the Federal Reserve authorities to the change in credit policy this time differed from the procedures adopted on previous occasions as, for example, in 1953. At that time the Reserve authorities, before lowering the discount rate, took measures to increase the availability of bank credit. This time they took no such action. The Reserve authorities did not prepare the market. On Nov. 20 the member banks were indebted to the Federal Reserve banks to the extent of more than \$1 billion and negative reserves, that is, excess reserves less borrowings, still totaled \$378 million.

Although the lowering of the discount rate gave notice that the policy of active credit restraint had ended, the Federal Reserve authorities did not follow it up with im-

mediate steps to increase bank reserves. The impact of the changed credit policy will depend on what measures will be adopted to broaden the country's credit base. In view of the declining trend in business activity, the rise in unemployment, and the abatement of the forces of inflation, you may expect that such steps will be taken. They may include both open market purchases and lowering of reserve requirements.

The increased availability and the lower cost of money will have several effects on the economy:

1. The first impact will be felt in the money market. Interest rates will decline and bond prices will increase. In fact, this has already taken place. Short-term rates, such as those on Treasury bills, bankers' acceptances and commercial paper, have decreased. Prices of medium and long-term government securities as well as of high-grade corporate and tax-exempt municipal bonds have taken an upward swing. In mid-November the Treasury was already able to borrow new money at a lower rate than previously prevailed. Its refunding operation was

(continued on page 74)

TODAY'S PLATEAU:

TOMORROW'S OPPORTUNITY

Experts tell how you can
prepare for the next boom

YOUR BUSINESS DECISIONS in the months immediately ahead could determine how big a share of the next boom your company will get.

For many U. S. businesses, 1958 will bring slower sales and stiffer competition.

But these factors should be kept clearly in focus:

1. The greatest era of economic opportunity this nation has yet experienced is due to begin about 1960.

2. If your business is now using sound management practices and tools you should be able to adjust to any temporary leveling without suffering damaging setbacks.

3. The months to come will open the way for improvements in many aspects of your operation, from products to personnel.

These assurances are cited by management consultants, economists, and business leaders. Interviewed by NATION'S BUSINESS on the year-ahead outlook and the need for new business tactics to cope with the special problems of 1958, these experts offer advice which will have wide application for many companies.

Their prescriptions include: cash forecasting, discipline incentives, materials standardization, new product introduction, automation, realignment of staff-line operations.

The greatest dangers lie ahead for companies whose customers are well-stocked and can easily put off replacement, and companies whose products have undergone little change of late. However, few companies will be untouched by the effects of the current business adjustment.

The tactics individual companies adopt to meet their problems this year will depend largely on their size and advancement in management techniques as well as on their industry. But whatever is done, the experts say, the most important requirement is for businessmen to avoid panicky actions which could

harm their long-run prospects and contribute to consumer buying resistance.

As one business adviser puts it, "The psychological danger—the danger of chain-reacting pessimism—is the gravest one we face at this time."

Dr. Emerson P. Schmidt, chief economist for the Chamber of Commerce of the United States, says the growth potential of America is great. He says that although the present line-up of forces in the economy is less favorable than in 1949 and 1954, years of slight recession, there is no question that the present situation is at most temporary.

"The important thing," says Dr. Schmidt, "is for businessmen not to lose their confidence in the economy. After World War II some businesses guessed there would be little growth of the economy and decided not to expand. Some of their competitors banked on growth. The pessimists took an awful beating."

Getting ready for the next boom

In planning your moves for 1958 and the years to follow, it is important to keep in perspective the long-term growth potential of our economy.

Lawrence A. Appley, president of the American Management Association, describes the present situation as "a plateau in advance of the greatest boom we have yet known in this country."

The specifics of the case for the boom are these:

The American population is growing at a rate of about 4 million a year. Our population, now 172 million, will be 180 million by 1960. Assuming that there will be no major war between now and 1960, and no great natural disasters, business can count on a greater aggregate number of people for whom to produce goods and services.

While some analysts take the position that a popu-

lation increase does not necessarily mean an improvement in a nation's business volume and living conditions (China's 600 millions are cited frequently) it is nonetheless true that more babies do generate at least a certain amount of increased business in an industrialized country. And, if the view of one economist is valid, a new baby in the home can be a very real impetus for the working members of that home to earn more. The result of this is a cumulative rise in the national living standard.

Research and development on new products and processes is another key element in the case for another boom.

U. S. companies currently are spending about \$6.5 billion a year for new product research and, since 1953, an estimated \$25 billion has been spent this way. The research investment should pay off at a time when many of today's consumer items will be wearing out.

Rising incomes and a rising U. S. standard of living also indicate we are heading for another great cycle of consumption in the 1960's.

At present only six per cent of our population is made up of two-car owners. Only three per cent has two houses. This shows the opportunity for a greatly expanded market. Such a market will, of course, have to be cultivated—and now is a good time to start.

Increased leisure will open broader markets for many companies. Moreover, expanded trade opportunities in Europe, and other areas where living standards are rising, also will assist U. S. industry in reaching new peaks of production.

In some areas—South America is a good example—a middle class market is taking shape. This means demand for the kind of goods which account for a large share of our own national output.

Increasing government expenditures—national, state and local—in the years ahead will provide new business for some producers. Spending for missiles and other military hardware undoubtedly will rise this year, thus stimulating at least those businesses which are defense-oriented.

Sound management

The short-term leveling need not cause anxiety among concerns that are practicing management with a high degree of skill, say the experts.

"A well organized, well managed, well controlled business doesn't have to change much," says Richard M. Paget, of Cresap, McCormick and Paget, management consultants. "In this position a company knows what is happening soon enough to do something about it. This ability to adjust quickly is the main difference between a well managed and a poorly managed company."

"The hallmark of postwar business," says E. Everett Smith, a director of McKinsey & Co., management consultant firm, "is that we have developed the art of management. We have good management tools. We're not flying blind. We don't get scared by reading the paper. You don't find panic where there is good inventory control, good marketing statistics, for instance. Companies that have these controls simply are on top of their business."

Management generally is better trained today than

it was a number of years ago, Mr. Smith notes, and multiple management operation in many companies permits a chief executive to act with more confidence and wisdom because he is better advised.

Vice presidents of sales, finance and other areas have broken out of their fields and now think broadly in other areas, making them better able to contribute to decisions affecting over-all company operations.

If your business doesn't now have standard costs, doesn't make market surveys, doesn't have a check for distributor performance nor a controls structure to keep you on top of change, it would be difficult to set them all up in the next few months when the business situation is expected to change most rapidly. In such a case, however, one tool that can be put to use immediately is cash forecasting, suggests Wilson Seney of McKinsey & Co.

This procedure is used for predicting the impact of economic changes on the cash position of a business.

In making cash forecasts, you figure both the worst and the best that you feel could happen to your business. Maybe you think sales at worst could drop off by 25 per cent. And you figure at best that sales will rise about 10 per cent. Now you have a range established for possible revenues and expenditures in the case of both bad business and good.

You figure all the ways you could increase your cash or minimize expenses. Maybe you could borrow from the bank, or reduce your inventories, reduce the amount you withdraw from the business if you own it, make a deal with the landlord on adjusting or postponing rent payments, sell a piece of the business, put off payment of taxes until a later time and pay the penalty, postpone any planned improvement or new equipment or other expense.

Then you decide as best you can where you will be in the next several months. Say you figure sales will be off five per cent. Then you decide what, of the possibilities you have listed, will be necessary to bring in more income or delay expenditures to meet this condition.

The biggest companies make regular cash forecasts, but many companies don't. The advantage to this procedure is that it is a systematic program of planning and consideration of all possibilities, Mr. Seney notes, rather than a panic operation.

Even though the art of management is being practiced with great success in a number of companies, managing today is more exacting than ever. There are more techniques to consider, more responsibilities to handle. As economic conditions shift and break-even points rise, more is expected of management.

Even among the successful, well managed organizations, some softness has developed as a result of good times during the past couple of years.

One executive noted, for example, that administrative costs have grown very large in some companies, so line-staff relationships need realigning. In some concerns inventories could be better balanced. In other companies, the sales force is merely taking down orders rather than practising hard selling.

Problems could crop up faster in the months ahead. "Collections may be slow," says Mr. Paget. "The role of the financial man becomes more important. Incentive compensation programs for management based on the boom may have to be revised. (continued on page 90)

SPENDING FOR FOOD PROJECTED TO 1965

Population and income rise means a change in markets and in tastes

AMERICANS WILL SPEND, in terms of today's prices, about \$105 billion on food by 1965, according to a study by NATION'S BUSINESS, and this will buy some wondrous items for the family menu.

This doesn't mean the capsule or pill meal will be coming into favor, except possibly for future space travel. Food experts also say there is little chance that such high protein dishes as, say, nettle soup, sunflower cookies or grassburgers will replace today's foods, at least during our lifetime.

However, the nation's biggest industry is looking with some certainty to these future trends:

- ▶ Sales will shoot up for processed, convenience foods.
- ▶ Competition will stiffen in practically every segment of the food industry.
- ▶ More money will be spent on research for product development and improvement.
- ▶ More will be spent eating out.
- ▶ Sales of meat, eggs, fruits and vegetables and dairy products will increase. Sales of cereals and potatoes will rise less rapidly.
- ▶ More money will be spent on pre-selling to acquaint housewives with products.

Here's how spending for food among different

	TOTAL (billions of dollars)		INCOMES UNDER \$4,000	
	1957	1965	1957	1965
Food for home consumption:				
Milk, cream, ice cream and cheese	\$9.3	\$13.4	\$2.2	\$1.9
Bakery products	4.6	6.4	1.2	1.0
Meat, poultry and fish	20.5	29.6	4.9	4.2
Fresh vegetables	3.3	4.7	0.8	0.7
Fresh fruits	2.9	4.4	0.6	0.5
Coffee, tea, soft drinks, and other nonalcoholic beverages	3.8	5.3	1.1	1.0
Other food items	18.0	25.2	5.2	4.5
Meals bought away from home	8.4	13.4	1.2	1.0
Purchased between-meal snacks and nonalcoholic beverages, and supplements to packed lunches	1.7	2.6	0.3	0.2
Total food expenditures	72.5	105.0	17.5	15.0

► More variety will be offered with an increase in specialty foods not only for gourmets but for the very old and very young.

► There will be more concentrates, dehydration, variety in packaging, longer preservation of food, new combinations of foods and more exotic items.

Consumers spent about \$72.5 billion in 1957 for food, including meals bought outside the home, between-meal snacks and nonalcoholic beverages. The average family spends at least one dollar out of every four for food.

By 1965, consumer spending for food can be expected to increase by approximately 45 per cent while total consumer spending for all items will increase by roughly 40 per cent, barring war or depression.

These are some of the findings of a NATION'S BUSINESS projection of spending based on population, income and food trends as reported by the Bureau of Labor Statistics, the U. S. Departments of Commerce and Agriculture, the Wharton School of Finance and Commerce, and on the opinions of food experts elsewhere.

Although food is the major family expense, as a proportion of total spending the percentage paid out

for food declines as a family's income rises. In accord with this economic truism, families with incomes under \$4,000 devote about one third of total spending to food. The \$4,000 to \$5,999 income families spend about 28 per cent on food. The \$6,000 to \$9,999 income families spend about 25 per cent; and the \$10,000 and over families, about 21 per cent. The reason high income families don't spend an even narrower percentage for food bills, is that they buy more of the expensive, processed foods and eat out more than lower income families.

Lower income families fare better at the dinner table than is indicated by the percentage of spending for food because many families in the low income groups grow much of their own food.

Despite the boom in processed, precooked, frozen foods, about eight per cent of all food eaten by American families is produced at home. During an average week, 40 per cent of U. S. families eat some food they have raised or grown themselves. Also food received as a gift or as payment for work still accounts for two per cent of all food consumed.

"The most evident development in the food industry," notes one Agriculture Department authority, "is that the work is being (continued on page 48)

income groups will change from 1957 to 1965

INCOMES \$4,000—\$5,999		INCOMES \$6,000—\$9,999		INCOMES \$10,000 AND OVER	
1957	1965	1957	1965	1957	1965
\$2.4	\$3.0	\$3.2	\$5.3	\$1.5	\$3.2
1.2	1.5	1.6	2.6	0.6	1.3
5.1	6.4	7.1	11.8	3.4	7.2
0.8	1.0	1.1	1.8	0.6	1.2
0.7	0.9	1.0	1.7	0.6	1.3
0.9	1.1	1.2	2.0	0.6	1.2
4.4	5.6	5.9	9.8	2.5	5.3
1.6	2.0	3.3	5.5	2.3	4.9
0.4	0.5	0.6	1.0	0.4	0.9
17.5	22.0	25.0	41.5	12.5	26.5

HOW'S BUSINESS? today's

An authoritative report by the staff of The Chamber of Commerce of the United States

AGRICULTURE

Farmers will realize about the same income from farming in 1958 as in 1957, assuming there is no major change in market demand and government programs.

This is the estimate of U. S. Department of Agriculture economists who predict farm prices will average about the same as in 1957. Fall moisture conditions offer prospects for another year of bumper crops. A further rise in production expenses may cancel out any increase in gross receipts from the sale of these products.

The coming legislative session, however, holds the key to the status of farm programs. They cost the government an estimated \$3.5 billion during the 1957 calendar year for three farm programs which will again be reviewed by Congress. These include Public Law 480 (government-financed exports for foreign currency, grants and barter), the price-support program and the soil bank. PL 480 will expire June 30, 1958, unless Congress complies with the Administration's expected request for extension and more funds. Secretary Benson has already appealed for more production freedom and price flexibility which includes lower minimum support levels. And economy-minded legislators may again question the merits of the acreage reserve part of the soil bank.

CONSTRUCTION

Recent figures seem to support predictions that 1958 will be a solid construction year.

Late 1957 statistics show contracts totaling \$1,165,380,000 for residential building—an 11 per cent increase over 1956. The rise was made up entirely by apartment buildings and two-family houses, while the building of single-family

houses took a one per cent dip. Other encouraging signs on the construction front have been the renewed strength in industrial building which had been lagging for several months.

On the federal government front, increased interest in construction statistics was shown with the establishment of a high level Office of Construction Statistics within the Business and Defense Services Administration of the Department of Commerce. This new office will have the resources of the entire Department of Commerce available to it and could prove to be a strong central point for planning for the industry.

CREDIT & FINANCE

Congress convenes this month amidst rumblings of financial unrest and doubt. Spending, monetary and fiscal questions loom large on the congressional horizon.

Consumer buying remains reluctant, but prospects for some slight upturn are in the offing.

Passenger car sales are expected to pick up later this month. Sales of wholesalers remain static.

The past months' strain for funds to meet tax payments has eased and the coming months will see further credit loosening. Competition for savings will become more intense during the year. Prospects for federal finance look better this year than last; predictions now see longer maturities advancing. Federal funds range at 3 to 3½ per cent; with the prime rate at 4 to 4½ per cent; commercial paper at about 4 to 4¾ per cent and bankers acceptances of 30-90 days range at approximately 3½ to 3¾ per cent.

DISTRIBUTION

Caution is the keynote as distribution trades ease into 1958. Mer-

chants are braced for the customary drop-off in January sales, following the December high.

In recent years, first quarter sales have dropped an average of 14.5 per cent from the preceding quarter. It probably won't be much different this time.

While personal incomes and spending continue high, consumers tend to be more selective and price-conscious, but buying of essentials will continue at a high level.

First quarter food store sales generally show an average drop of six per cent from the previous quarter; drug store sales, eight per cent.

However, stores carrying mostly postponable merchandise show greater sales drops for the same period. For example, department store sales go down more than 40 per cent; variety store sales drop about 44 per cent.

Helping to brighten the outlook for house furnishings and appliances is the forecast for increased housing starts this year.

FOREIGN TRADE

President Eisenhower has established a new Cabinet-level Trade Policy Committee to make recommendations to him on basic policy issues—including escape clause cases—arising in the administration of the Trade Agreements Program.

Secretary of Commerce Sinclair Weeks, its chairman, has said a major objective of the new committee will be to strengthen the American economy through the sound and vigorous development of world trade.

"International trade," Mr. Weeks said, "is not something apart from American industry or a substitute for it. Rather, it is a projection and an aid to American industry and commerce. Hence its healthy development both safeguards the nation's economy from weakening influences and provides increasing opportunities for expanded business and employment."

Total exports of a commercial nature will probably run close to \$19.5 billion in calendar year 1957, with imports at \$12.5 billion. This represents about 7.5 per cent of our gross national product.

Other members of the new committee are the Secretaries of State, Treasury, Defense, Interior, Agriculture, and Labor.

GOVERNMENT SPENDING

The President's fiscal 1959 budget probably will estimate spending of approximately \$72.5 billion. New spending authority requested will be about \$74 billion—due mainly to new procurement of missiles, speed-up of satellite work, and increase in research and development.

Congress will be on a spot. Full budgetary weight will be given to economic as well as military threats resulting from Russia's latest actions. Reduction of less essential and elimination of nonessential activities will be proposed. In an election year this will present a disturbing picture to congressmen. Choice will be to take steps to keep the economy healthy and face possible voter wrath, or act for political expediency.

Current indications point to a deficit or very close balance this fiscal year. Despite prediction of \$1.5 billion surplus in October, the government will be lucky to be out of the red on June 30. Unusually high expenditures in the first quarter and slightly sagging revenues are the cause of the gloomy picture. Increases from actions on missile and satellite programs probably would have been absorbed and the balance be realized if not for these factors.

LABOR

Whether Congress passes legislation which will effectively remedy the abuses disclosed in the labor movement will depend on whether they seek a real remedy for the monopoly power of labor unions or will simply follow Administration recommendations.

The Administration's recommendations on labor legislation (largely developed by Secretary of Labor Mitchell) will be forthcoming this month with major emphasis centering on legislating democracy for rank and file union members. Such proposals as: elections by secret ballot, an election of union officers at least every four years, a limitation or elimination of the use of trusteeships, filing of more complete union financial reports, full public disclosure of union health, welfare and pension plans, are primarily concerned with the internal processes of unions.

Other recommendations included

a ban on hot cargo clauses, black-mail picketing, and a wider prohibition on boycotts. However, the Administration has either opposed or failed to recommend needed legislation in such areas as: employee secret strike ballots, mandatory elections for determining bargaining representatives, a national right-to-work law, and the application of antitrust laws to unions.

NATURAL RESOURCES

Predictions are that 1958 will show a slight improvement over 1957 within the lumber industry.

Production in 1957 is expected to be about nine per cent below 1956 figures, reflecting the weak market caused in part by tight money and the drop in housing starts.

At least 21 West Coast mills recently shut down, and in one seven-county area of southwestern Oregon, 88 mills have closed down in the past two years. Some sources believe control of federally owned timber supplies, and federal timber sales policies have caused continuous inflation of stumpage prices. Coupled with market conditions, this has been serious for smaller mills.

Housing starts are expected to increase in 1958. To strengthen its position, however, industry spokesmen say they need to develop an aggressive program to promote the competitive advantages of wood, especially in home remodeling, repair and extension.

The National Lumber Manufacturer's Association has appropriated \$25,000 to develop a national advertising program for the industry.

TAXATION

Sputniks I and II have clouded the prospects for tax reduction in the coming election year. Confidently anticipated a mere two months ago,

tax reduction as an issue is now hanging on by a slender tie.

The current economic leveling has created strong doubt as to chances that year-end revenues will reach the levels earlier predicted. There are strong indications the current (1958) budget will show less surplus than has been estimated or even a small deficit.

If spending for missiles and satellites is increased as indicated by popular and military demand, even a balanced budget for fiscal 1959 is in question.

Should economic activity show further signs of weakening, tax cuts would again come to the fore as stimulators.

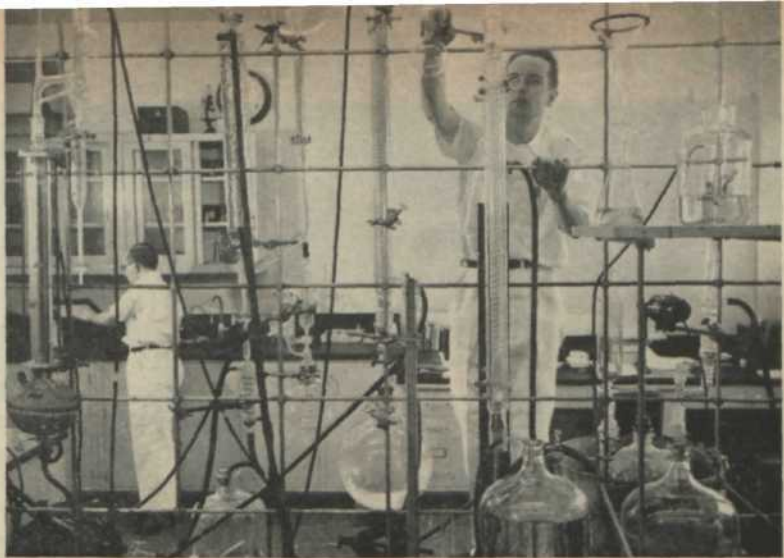
Prime argument now centers on economic need and restoration of public confidence in government.

TRANSPORTATION

For all private and for-hire transportation the 1958 outlook for tonnage is optimistic, with slight overall gains in prospect. Estimates of anticipated revenues are somewhat less cheerful, with expenses continuing to mount as fast as or faster than revenues.

The railroads as a whole expect continuing slight declines in carloadings for the first half of 1958, with second half activity depending on the level of general economic conditions. This decline is expected to be offset, however, by advances in ton-miles anticipated by other media. These advances range from a slight increase for the oil pipeline industry to a rise of from 10 to 15 per cent for the inland waterway carriers.

During 1957 the transportation industry held its own. Preliminary estimates of traffic carried indicate that the total of 1,360 billion ton-miles moved in 1956 will be exceeded by a few billion ton-miles.



EAGLE, P.F.I.

done in the factory instead of in the kitchen, and we've demonstrated that we're willing to pay for these built-in services."

As new and more convenient products are offered, he adds, competitors will be striving to upgrade their products and make them more attractive to the shopper. More money will be spent trying to find out how to preserve food longer, how to reduce the bulk and how to sharpen the taste.

There's a "back-to-the-shelf" movement underway, according to another Agriculture Department food expert, to develop more foods that may be kept for months without refrigeration. The host of new products being developed takes a lot of space at the store and in the home freezing compartment. And some foods change in color and vitamin content, even though frozen, unless they are stored at extremely low temperatures.

Radiation sterilization or radiation pasteurization is under testing, but the problem of flavor change hasn't yet been licked, says one authority. A dehydro-freezing process also is being used experimentally under which much of the water in a vegetable, say, is driven off by blowing hot air on it. Then the product is frozen. This reduces bulk for transportation and storage purposes.

More processed and dried foods or ingredients will be going into manufactured combinations, too. A company making stew might well save on inventory costs by using dried potatoes, carrots and peas, for instance, a food researcher suggests.

According to John A. Logan, president of the National Association of Food Chains, within the next 10 years we may see a decrease in food losses by insects, improved flavor and texture of canned goods, increased variety in our food selection through use of presently excluded foreign crops, and decreased food handling costs by preserving some perishables so they may be stored longer before marketing, and extending the shelf life for meat for months without refrigeration.

But he adds that businesses which have large investments in equipment for processing and distributing foods preserved by refrigeration have no reason to fear their investments will be outmoded soon. Chain stores, at any rate, he predicts will be equipped for some time with maximum refrigerated storage and display areas.

Eating out cost Americans about \$8.4 billion in 1957. Based on current prices, about \$13.4 billion will be spent eating out in 1965. This is the steepest rise in the various categories of food spending.

National advertising and distribution and the mobility of the population have made such regional dishes as grits and Boston baked beans more popular over a wider market. Sophistication of tastes has led food chains to install gourmet and international selections which offer such gastronomic delights—or challenges—as fried grasshoppers from Japan and orange-flavored chocolate apples from Holland.

The increased proportion of old people and youngsters in our population in the next several years will make strong markets for geriatric dishes as well as baby foods. The exodus to the suburbs of young, growing families is offering a market for large, economy size food packages which permit fewer shopping trips.

Every parent knows the bigger the family, the higher the grocery bill. Department of Agriculture studies indicate each additional member of the family adds about \$5 to the weekly grocery bill. However, the average dollar expenditure per family member drops, partly because the additional family members are usually children who eat less than adults, also because there are economies in buying and preparing meals for larger families, and also because the larger households usually have lower levels of living than smaller families with the same income.

Agriculture studies also turn up such purchasing information as this: Americans spend as much for cheese as for ice cream. Twice as many families buy cake during a typical week than buy pie. Half of the money spent for fresh vegetables is for tomatoes, lettuce, celery and carrots.

Though total spending for food is expected to rise by about 45 per cent from now until 1965, some categories will do better and some worse.

Food consumed at home makes up 82 per cent of all food purchases, but the proportion drops as incomes rise. Families with incomes under \$4,000 use about 91 per cent of food spending for foods eaten at home, while the \$10,000 and over income family uses only 78 per cent of its food dollar for food eaten at home.

Purchases of food for home consumption are expected to rise 44 per cent by 1965, slightly less than total spending for food, because with rising average incomes families are expected to eat more meals out.

Dairy products

Milk, cream, ice cream and cheese make up 13 per cent of all family food purchases. Families with incomes under \$4,000 and over \$6,000 spend slightly less than this amount, while families with incomes of \$4,000 to \$5,999 spend a little more, or almost 14 per cent, of their food dollars for milk, cream, ice cream and cheese. These items cost the average family about \$172 per year, with \$94 spent for whole milk, \$6 for cream, \$27 for ice cream, \$27 for cheese, and the remaining \$18 for buttermilk, skim milk, chocolate milk, and evaporated milk. Spending will rise about 44 per cent by 1965.

Bakery products

Bakery products cost the average family \$85 per year, or 6.3 per cent of all spending for food. Bakery products take a smaller proportion of the food dollar as incomes rise, being 6.9 per cent for families with incomes under \$4,000, but only 4.8 per cent for families with incomes of \$10,000 and more.

Bread is the major item, costing the average family \$46 per year. During any week almost 95 per cent of all families will purchase bread. Next most popular bakery item is crackers, purchased by 55 per cent of the families each week, cakes by 22 per cent, rolls by 20 per cent, and pies by 11 per cent of the families. Spending for bakery products will rise about 39 per cent by 1965.

Meat, poultry and fish

Meat, poultry and fish constitute 28 per cent of all spending for food, and the proportion remains relatively constant at all

(continued on page 53)



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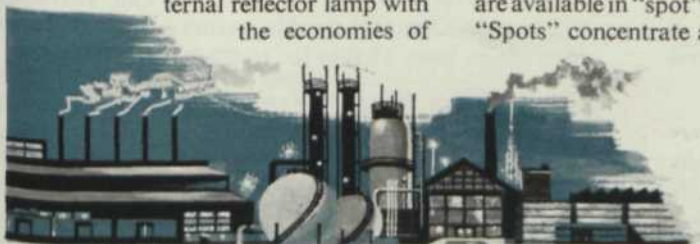
tensity, while "floods" give a wider, more diffused beam. Reflector lamps are suitable for high-bay industrial lighting, and close visual assembly work, parking areas, etc. Projector lamps are better for area floodlighting and general outdoor applications, or for interior industrial auxiliary lighting and many commercial applications.

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10 big new extra-heavy duty truck series

GVW's up to 51,000 lb. For '58, ten new basic models are added to Ford's already extensive Heavy and Extra Heavy Duty line. Four new Tilt Cabs, four new Conventionals, and two new Tandem models offer GVW ratings up to 51,000 lb.

GCW's up to 75,000 lb. New T-950 Tandem is rated for 75,000-lb. GCW. Biggest single-rear-axle models are rated for 65,000-lb. GCW.

Bogie-axle capacities up to 38,000 lb. For '58 there are two new Extra Heavy Duty Tandem Axle models. The new T-950 Series features a tandem rear axle assembly rated for 38,000 lb. New T-850 Series offers choice of 28,000- or 34,000-lb. bogies.

Front-axle capacities up to 15,000 lb. Choice of three front axles in most new Ford Extra Heavies. Rated capacities: 9,000, 11,000, 15,000 lbs.

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New highway transmissions. Roadranger transmission is available in all ten new Ford Heavies. Up to 33% less shifting. "Short-Fourth" highway transmissions also available on "F" and "C" Series. With these new transmissions, engines operate in peak horsepower range with greater fuel economy.

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FOOD IN 1965

continued from page 48

income levels. When income rises, a larger proportion is spent for beef and turkey, and a smaller proportion for pork, chicken and fish.

Average family spending for meat, poultry and fish is \$380 per year, with \$295 spent for meat, including \$125 for beef, \$105 for pork, and \$38 for frankfurters and other luncheon meats. Spending for poultry is \$55 per year, and for fish \$30. Frozen fish total about \$15 per year, and canned fish, chiefly salmon and tuna, about \$15 per year. By 1965, spending should rise 44 per cent.

Fresh vegetables

Fresh vegetables account for 4.6 per cent of food spending at all income levels, although, as income rises, a larger proportion is spent for asparagus, celery, cucumbers and tomatoes, and a smaller proportion on beans, cabbage and onions.

Average spending per family for fresh vegetables is \$61 per year, with about half this amount spent for tomatoes, lettuce, celery and carrots. Spending for fresh vegetables will be up 42 per cent by 1965.

Frozen vegetables are rapidly growing in importance, but still the average family spends only about \$10 per year for them. They are not included in the above figures. Per capita consumption of frozen vegetables has grown from two pounds per year in 1946 to about 7.2 pounds in 1956.

Fresh fruit

Spending for fresh fruits totaled about \$2.9 billion last year, and is expected to rise 52 per cent by 1965, reaching \$4.4 billion. Fresh fruits make up four per cent of all consumer spending for food, with the proportion rising as income increases. The average family spends about \$54 per year for fresh fruit, with bananas and oranges the major items.

Not included in these figures are the increasing expenditures for frozen fruits and frozen fruit juices.

Coffee, tea, soft drinks

Spending for coffee, tea, soft drinks and other nonalcoholic beverages totaled some \$3.8 billion in 1957, and is expected to reach about \$5.3 billion in 1965, up 39 per cent.

These beverages account for 5.2 per cent of all food spending, but the proportion drops as income rises, being 6.3 per cent of all food spending for families with incomes under \$4,000, and 4.8 per cent when income reaches \$6,000 and over.

Family spending for these beverages

averages \$70 per year, with coffee about 60 per cent of this amount; soft drinks, 25 per cent; tea, 10 per cent, and chocolate, cocoa, and chocolate syrup, most of the remainder.

Other food items

Other food items, including fats, oils, flour, cereal products, sugar, potatoes, canned, frozen and dried fruits and vegetables, spices, pickles, totaled about \$18 billion last year, but are expected to reach \$25.2 billion in 1965, a 40 per cent increase.

These items account for 24.8 per cent of all spending for food items. It is 30 per cent for families with incomes under \$4,000, and 20 per cent for incomes \$10,000 or more.

Meals eaten out

Meals bought away from home are expected to reach \$13.4 billion in 1965, an increase of 60 per cent, the greatest increase for any category.

Purchased meals are 11.6 per cent of all spending for food, but the proportion rises sharply as income increases. Families with incomes under \$4,000 use about 6.8 per cent of their food dollar for purchased meals, but the \$10,000-and-over income family uses about 18.4 per cent. About half of all families eat out one or more meals a week.

Spending for meals away from home rises with urbanization of the family, but decreases as family size increases. This category includes restaurant meals, meals bought at work or school or while traveling.

Family spending for purchased meals averages \$155 per year, but is only \$60 per year for families with incomes under \$4,000, and over \$400 for families with incomes of \$10,000 and more.

Between-meal snacks

Purchased between-meal snacks and nonalcoholic beverages, and supplements to packed lunches totaled \$1.7 billion in 1957, and are expected to reach \$2.6 billion in 1965, an increase of 53 per cent.

Making up 2.3 per cent of all food spending, these items rise from 1.7 per cent for families with incomes under \$4,000, 3.2 per cent for families with \$10,000 and over.

The family with income under \$4,000 spends about \$15 per year for these items, and the \$10,000 and over family about \$75 per year. This category includes ice cream, candy, and soft drinks.

REPRINTS of "Spending for Food Projected to 1965" may be obtained for 15 cents a copy or \$10.15 per 100 postpaid from Nation's Business, 1615 H St., N.W., Washington 6, D.C. Please enclose remittance.

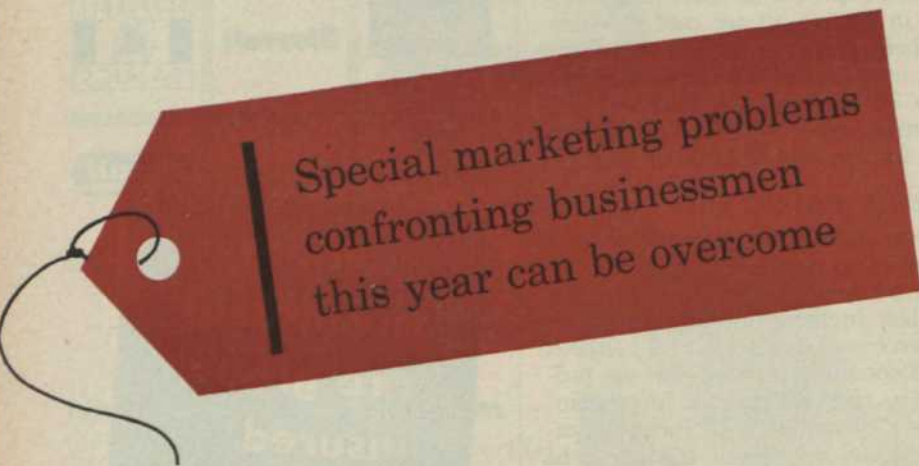
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YOU CAN BOOST SALES IN '58



Special marketing problems
confronting businessmen
this year can be overcome

A Nation's Business interview with

COLEMAN LEE FINKEL

Marketing Division Manager, American Management Association

Mr. Finkel, will 1958 present special sales problems?

Yes. While the economists predict a slight rise in gross national product—about \$450 billion from the 1957 level of \$436 billion—the overall percentage growth for 1958 will not be as great as in recent years. However, when viewed against the perspective of anticipated increases in subsequent years, this leveling off is not serious.

But at least for next year, sales will have to be gone after hard. It will require the best thinking and ingenuity of the sales department to obtain that part of the available business which its company requires for satisfactory profits. With competition tougher, the selling department can make the difference.

What steps can a company take to boost its sales efficiency in the year ahead?

I think step number one is for the company to have clearly formulated where it is headed—to know what its objectives are in terms of growth and profits, and in terms of diversification. From here the sales department can begin its planning.

Today is a good time for the sales department to make an over-all ap-

praisal of the entire selling operation; manpower, product line, advertising, distribution channels, customer service operation, credit losses. The marketing department especially has a three-fold responsibility.

Could you enlarge on that responsibility?

Number one is the role of the innovator. Many marketing executives feel that products themselves are becoming increasingly similar, and that the important plus that a company must have is in the ingenuity by which its marketing department is able to advertise, sell, and service customers.

These innovations have a short life in the competitive business world that we're in. So it is important that marketing continue to exercise new approaches to making sales.

Second, the marketing department has to recognize its role as the company's intelligence arm. Through its marketing research section, the marketing department has the job of gathering, in an objective, logical and thorough way, all the facts relating to products, customers and company sales policies. Then the facts must be reported back to all departments concerned with this infor-

mation—research and development, manufacturing, finance. They in turn can make better decisions oriented to the needs of the customer.

Third, marketing is becoming more cost conscious. I hear more often the desire of marketing men to analyze, dissect, and understand the complex distributive process to the degree that they know, or have a better knowledge of, what happens for each dollar invested in getting the product from the factory to the consumer.

Because of the nature of the selling process we may never reach the point that we can figure these measurements with the precision of manufacturing or accounting processes. However, we still can go a long way toward understanding what to expect back for dollars we are investing in marketing.

Can a company actually create a demand for products?

A company can create a demand for a product that is uniquely different, and that can do a better job than is currently being done. Even here, though, the demand must be created by a skillful blend of all the marketing elements—advertising, promotion, selling, public relations.

On the other hand, if you are too far ahead of the public, your efforts will be wasted. There is a danger, too, in creating demand for a product by a heavy promotion campaign and then selling a product that is not top quality.

What rules should a businessman follow in trying to determine whether his product is coming out at the right time?

One thing I believe that we can and should do is carry on extensive research in the market place. The failure in the introduction of new products is extremely high, but you raise your chances if you find out, to begin with, how large the market is, the characteristics of the people who are likely to buy your product, where they are and so on. You can try to sense the kinds of things they want in a product in terms of operational functioning, in terms of design, in terms of price. All of this, of course, is extremely hard to get and you can be misled by it. However, your chances of being successful are increased by the attempt to get these facts and interpreting them rather than just deciding arbitrarily that a product ought to be developed and manufactured.

Facts concerning the market need to be evaluated, weighed and interpreted for the entire company. The research and development department needs as much information as it

(continued on page 58)

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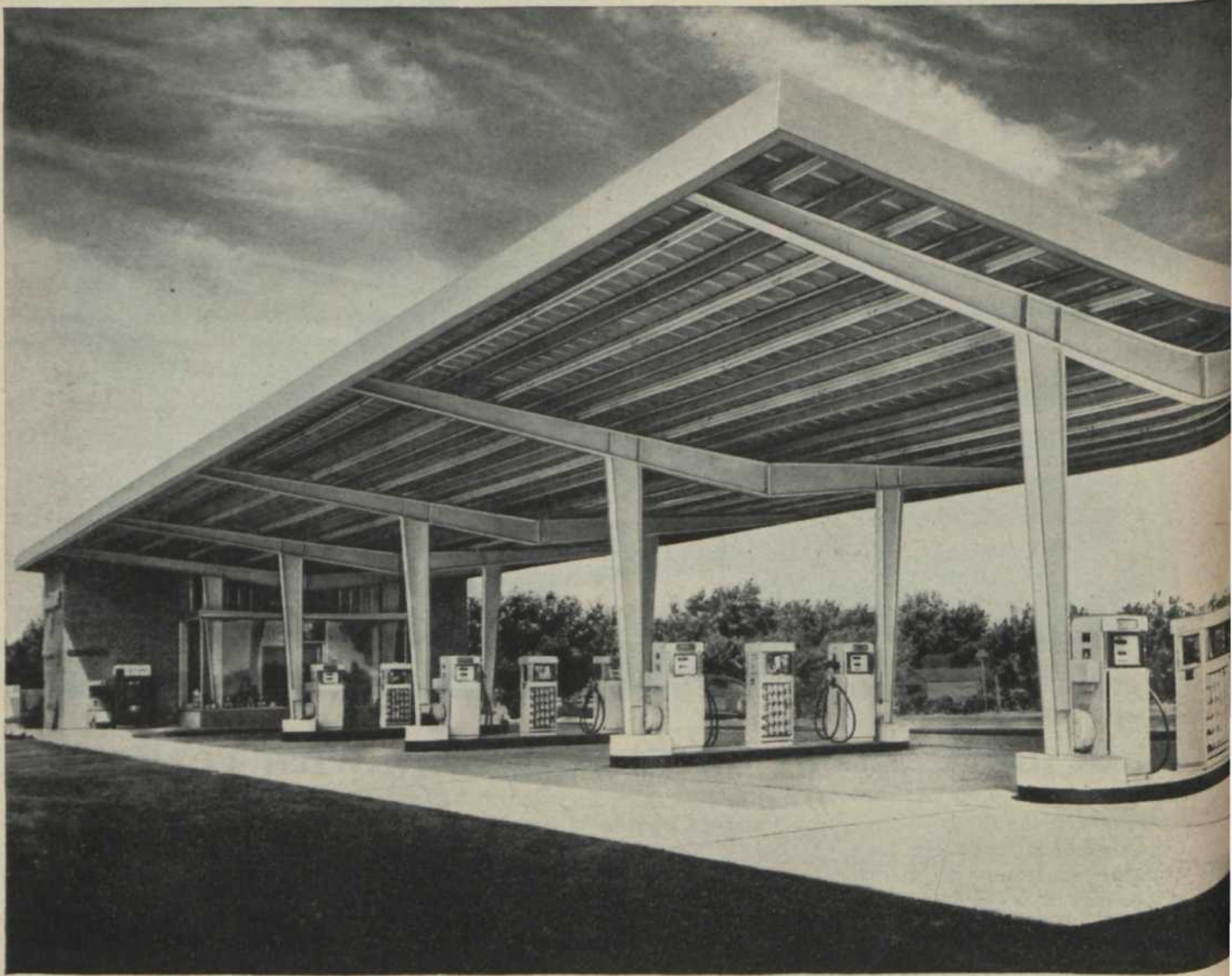
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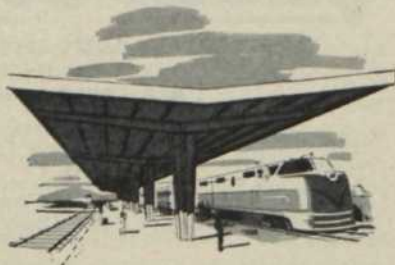
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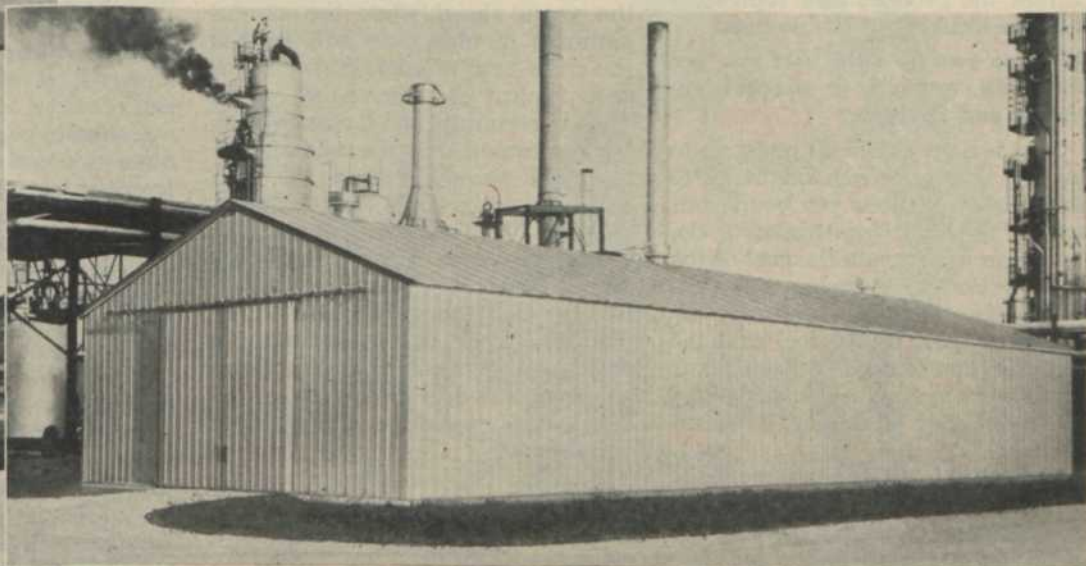
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BOOST SALES

continued from page 54

can get to help in research work; the manufacturing department also can make use of these facts. If it's possible to make a prototype then one should be put together.

Then, the product ought to be put in use by a sampling of consumers so that information about its value in actual operation is gathered and analyzed.

Business can't take too long in this process because it is too easy for competitors to get wind of changes in products, and so companies constantly will have to refine techniques and approaches for gathering this information quickly, interpreting it, and getting out onto the market the product that represents the best thinking of the moment.

How can you be sure that you are investing enough in market research and analysis?

This is a very difficult question to answer. One approach might be to determine what jobs you want your market research department to do. Ask them to estimate the cost of the projects and to enumerate the expected questions to which answers will be sought. If you feel that the accumulation of such facts will be a big help in making a decision, then the investment of money is worthwhile.

You might try to increase your marketing research appropriation and check later to see whether the additional research they were able to provide made the over-all marketing department more effective.

In today's situation, how can you be sure that the people know what they want?

Some of the motivation researchers have expressed the idea that there are three levels at which people's wants or needs are defined. One is on the conscious level where they recognize they want food; they want entertainment; they want transportation and such obvious conveniences.

On the second level are things that they may feel they want but they can't express or perhaps even won't express. A buyer, for example, may want a certain kind of car, not because of its high horsepower, or because he has a larger family and thus needs a larger automobile, but because he wants to impress his neighbors.

At the third level are desires people really aren't able to express and don't know they have. These are fairly deep desires and require a probing by skilled techniques. In

any event it is highly desirable for the manufacturer to try to seek possible information on what his customers want.

What about manpower? How can you get more effective performance from salesmen?

A great deal is necessary to raise a sales force to a high degree of efficiency. The needs are all the way up and down the line, from the salesman to the top sales manager.

The top sales manager is often a man who has had a good sales record, and selling is what he knows best. Yet, as he moves up—and certainly as he reaches the top of the sales force—it is important for him to get a much broader perspective than he has had before. He has to learn how to manage.

This is an absolute necessity for the years ahead when the careful planning of objectives will replace the crisis kind of operation that has been typical of many sales forces. This is certainly one factor in raising performance of the salesmen.

At the salesman level the men will have to be more rounded individuals. They will have to serve as business advisers. They will have to know enough about the product and its uses to act as servicemen where required. They will have to do a more intelligent job of selling. Companies are reflecting awareness of this in their selection and training of salesmen.

As a really basic step companies need to study the selling job itself and to see what they want their salesmen to do.

In some companies the salesmen really do not perform a selling function. Their primary job is to put up displays, to check inventory, and to shake hands with the retailer.

However, another point of view of a salesman is that of an individual who is a small businessman whose territory is his business. The individual salesman who is out on his own a great deal is often neglected by the company. Periodic visits by a supervisor, and, more often, letters or communications, represent his primary contacts throughout the year. To raise a salesman's proficiency, a complete look should be taken of the communication process to him. What information should he get? How often? How quickly?

Is more personal contact by supervisors desirable?

That is one step and, indeed, a very desirable one.

As our sales forces mature, it is going to be necessary for companies to think in terms of making sales jobs career jobs.

We are also going to need a lot of

good salesmen. Some of the men who are good salesmen but probably would not make good managers need to have their jobs developed so that they are a constant challenge and interesting enough to encourage the men to stay.

How can you measure a good salesman?

The primary criterion most organizations use is the attainment of a given sales quota. Some companies are doing a more extensive job of measuring performance against specific standards; for instance: setting up a quota for new accounts, for the number of calls to be made per day; giving him an expense budget against which he must operate. If he is able to lower it he is given recognition. Companies are also recognizing that a sale is a composite of a number of things. If each of these things is performed satisfactorily, it will likely result in a sale.

Companies are trying to give a more rounded emphasis to the different things the salesman needs to do, and are providing him with specific criteria so he can, throughout the year, check on himself.

One company found that just judging performance by sales volume was not enough. Many other factors were essentially more important.

In analyzing its districts, this company found that one of the men who was rated No. 7 on a volume basis became No. 2 on a profit basis. Another individual who was No. 10 on a volume basis became No. 38 on a profit basis.

Companies will have to seek out for themselves on an experience basis these many kinds of standards, and even though the first effort is a crude one it is desirable to make some kind of step forward.

One thing that any company can do to increase the efficiency of its selling force is to take a fresh look and to draw up a new job description of what it expects a good salesman to accomplish.

One way to start is to ask the salesmen what they think their job is. Management in many cases would be surprised to see the number of things that the salesmen are doing, or the concept they have of their responsibility.

I know one company that asked its salesmen in one district to write job descriptions of what they thought their responsibilities were. When the sales manager got these descriptions back he was appalled. One of the men didn't even know that the manager in his district was his boss.

The situation in selling is never

the same from month to month or year to year. It is constantly fluid. In a district where one man has been achieving a certain quota, another man comes in and is unable to achieve that quota. The conclusion is not necessarily that the second man is less efficient than the first man. Many factors could cause this. A new competitor may have come into the territory. A new product may have been introduced. A large plant using your product could have closed.

Your product may have fallen off in quality. One of the dangers in marketing in general is that you accept last year's conclusions for this year's planning.

What are some other devices by which a company can improve its sales, advertising, and public relations?

In general, use of trend line forecasting only is a gross error. While your business may be increasing every year and you may be getting a reasonable profit, you may in fact be losing business because the industry is increasing at a far greater rate than your company is.

I know of a firm which felt that it would increase its business in five years by 30 per cent. When it investigated after its plans had been drawn, it found that the industry was going to be increasing by 50 per cent. So all of this research on the future needs to be done on as current a set of facts as you can put together.

Even though in your long-range forecasting you may look ahead five years, you need to look at that five-year forecast every year and see what changes are necessary and adjust accordingly.

Last year's five-year forecast is now obsolete.

Usually the answer to increased efficiency lies within the company itself. One valuable device is letting the men in the organization express themselves. Too often management is misinformed about the degree to which their men are accepting policies. One company had an attitude survey made among its men and learned a great deal about how policies they had established over a period of years were not being followed by the men. Some of these policies had outlived their usefulness, and required changing.

Another way is to allow your men to participate in educational activities of business organizations. Let them see how the other companies are doing business. Let them talk to their peers in allied and other types of industry. The process is a continuous one and you can never

Selecting a plant site? Think of a home site too!



Or you can put it this way: keep employees happy and they'll do a better job.

That's one thing about our West. It's a wonderful place in which to enjoy life. There's plenty of space to give one a sense of freedom, and there are varied recreational opportunities. People are friendly. They make you feel at home.

In the western states served by our railroad, you're quite certain to find a plant site that meets your requirements from an industrial or commercial viewpoint. That includes, naturally, the modern, efficient freight and passenger service provided by Union Pacific.

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Map shows the vast western area served by Union Pacific.

INDUSTRIAL DEVELOPMENT DEPARTMENT

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*"Employees' enthusiasm
for **BLUE CROSS**
proves it gives the sound
hospital expense help
families need and want!"*

says **ARTHUR F. BROWN**, President,
Imperial Paper and Color Corp.



"Our first Blue Cross group at Imperial was formed in the days when such protection was still a new idea. Some 42 employees were enrolled then. Over the years, the Blue Cross objective of helping in terms of hospital care rather than a daily dollar allotment has proved its practical value. It's one of the main reasons 1600 employees here are today enrolled in Blue Cross".

Blue Cross Plans, serving locally coast to coast, bring Americans this famed program for prepayment of hospital care...the only one officially approved by the American Hospital Association.

IN THE space of a generation, Blue Cross has pioneered the idea of hospital care protection and proved its value. Today more than 54 million Americans belong—almost one out of every three men, women and children in our country!

Blue Cross is unique in the way it operates. Plans are officially approved by the American Hospital Association. And they work directly with hospitals in their communities to serve members better in every way.

Here is realistic protection. The benefits provided by Blue Cross are based on hospital care, rather than dollar allowances. Emphasis is constantly placed on the need of the individual member.

Saves office time and expense. Working directly with the hospital, your Blue Cross Plan handles all details of employees' cases. The company inherits no bookkeeping or claim filing problems. Bills clear when Blue Cross members leave the hospital.

Easily built into your welfare program. Blue Cross protection offers wide flexibility to fit any employee benefit program... whatever its size or scope. This program is equally advantageous for large or small companies.

Cost kept low. Blue Cross Plans are dedicated to the principle of giving the greatest possible protection at the lowest cost. Except for necessary administrative expenses and reserves, all money taken in by Blue Cross Plans goes toward the payment of members' hospital bills.

For answers to any questions about how Blue Cross can serve your company, contact your local Blue Cross Plan—or, if you wish, write direct to Blue Cross Commission, Dept. 717, 425 North Michigan, Chicago 11, Illinois.

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BOOST SALES

continued

be satisfied that you have reached complete effectiveness.

Do you see any particular industries in which selling is an especially crucial problem in 1958?

Sales in general will be difficult to get. I don't know of any industry where demands far exceed the present supply.

It will be a hard selling year then for all business.

Even industries like steel that have been constructing additional facilities to turn out production because of the great demand, foresee a slackening of demand, and will have to fight harder for business during 1958.

Looking on beyond, do you see a new boom surge in the future, say by 1960, when selling may become easier?

I don't know that selling will become easier. But there is a tremendous amount of impetus in our economy built in by population growth, increased purchasing power, greater want-stimulation. Technology will release products that have never been dreamed of.

What we will be experiencing this year is just a plateau and a jumping-off point for tremendously high and record-breaking sales years ahead.

That is why it is so important that companies gear themselves now and decide where they want to go in terms of growth. By 1960 the great upsurge in our economy will be well under way.

Do you see any possibility of a widespread decline in 1958?

We will have a good year of sales, especially for those companies that are prepared to go out to fight for volume.

We have in the past recognized that tied closely with business is the attitude of the consumer and of the business executive, and this is the great unpredictable. But, over-all, the thinking I hear from sales executives would indicate that we can count on a satisfactory business year.

Can you name any new techniques of motivation being used to raise the output of salesmen?

A closer attention to the salesman's problems through wider use of appraisals has been one device for improving the salesman's attitude toward his work and toward the

(continued on page 75)



ARTHUR F. BROWN, President, Imperial Paper and Color Corp. says:

*"Generous **BLUE SHIELD**
doctor bill benefits
have long been a key part of
our employee welfare program!"*

"Imperial was the first company in this area to offer Blue Shield protection to employees. Through the years we have received many heart-warming reports of how Blue Shield has helped our people with doctor bills. The benefits are liberal, and the cost is very reasonable."

Points to remember about Blue Shield!

Doctors back Blue Shield Plans through their local state or county medical societies.

Broad protection. Blue Shield provides benefits for hundreds of operations—many nonsurgical services, too.

The cost is low. Blue Shield Plans are organized in the public interest. All money taken in, except for necessary reserves and expenses, goes to help pay surgical-medical-maternity bills for Blue Shield members.

Direct handling on each individual case speeds payment and saves companies the trouble of filing claims and follow-ups.

Highly flexible. Blue Shield fits into all types of welfare programs in large or small companies.

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BLUE SHIELD

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The vote was 288 to five against the union, which has been trying to promote a nationwide consumer boycott against the purchase of shoes with O'Sullivan heels and the use of these heels by shoe repair shops. The new NLRB rule on activities of unions which do not represent a majority of employees—if it stands up—may be helpful in terminating the URW's boycott efforts and preventing others from starting.

Organizing drives

Increased interunion rivalry will likely broaden and intensify union organizing efforts because of increased union competition.

In some situations, charges and countercharges of competing unions will cause workers to reject both unions in a plague-on-both-your-houses reaction. Aware of this, some unions are making organizing pacts to avoid unnecessary damage to each other.

The International Association of Machinists and International Union of Electrical Workers, for instance, recently agreed not to attack the motives or character of each other and their officials when competing for workers who have no union. Earlier, the Machinists had filed a \$1 million libel suit against the IUEW growing out of the latter's unproved charges that the Machinists harbored communists.

The suit was withdrawn and the peace pact signed to increase both unions' organizing chances this year, when labor feels it will have trouble enough bucking an unfavorable labor climate as a result of exposures made by the Senate investigating committee.

Employers who feel a responsibility toward their employees on the matter of union representation can do a lot to influence their decision for or against a union, despite three major limitations on employer activity in this regard. An employer may not assist a union or employees opposed to a union; he may not promise a benefit if the workers reject a union, and he may not threaten reprisal if they choose to have a union.

Within these limitations, NLRB and the courts have held it is not an unfair labor practice for an employer to express honest opinions, to predict reasonable consequences (providing he has no control over them), report facts, and in many other ways to help employees come to a free and uncoerced decision

about a union. (See the list below.) Unions and individual employees have more freedom and are less restricted than employers in organizing situations.

A union may not resort to fraud or substantial falsification of wages paid at other firms where it has contracts, or threaten employers with loss of their job or bodily harm if

they do not join or cooperate with the union. One instance of union fraud concerned distribution of a hoax telegram purporting to indicate organizing support from the head of the rival union.

An employee engaged in organizing activity may speak freely about wages and working conditions. He risks being fired, however, if he: 1,

WHAT YOU CAN AND CAN'T DO

An employer does not have to keep hands off when a union is trying to organize his employees or get them to change unions. There are many things he can say or do without violating the Taft-Hartley law, providing there is no promise of benefit or threat of reprisal. He will want to be careful of libel and other laws, of course.

National Labor Relations Board and court decisions provide some guides, although employers must keep in mind that these are general rules and may not be applicable in every situation. Then, too, the rules can change. The lists below are based on current policies and decisions.

AN EMPLOYER MAY:

- ▶ Give his opinions on unions and union leaders, even in derogatory terms.
- ▶ Distribute information about unions, such as disclosures of the McClellan Committee.
- ▶ Reply to union attacks on company policies or practices.
- ▶ Predict that loss of benefits will result from unionization, just so he makes clear that the company is not threatening to cause the loss.
- ▶ Give his legal position on labor-management matters.
- ▶ Advise employees of their legal rights, if the advice is accurate, even though it may be one-sided.
- ▶ Declare a fixed policy in opposition to compulsory union membership contracts.
- ▶ Campaign against a union seeking to represent the employees.
- ▶ Indicate a preference for one union over another, providing he does not give assistance or grant preferential treatment to supporters of one union.
- ▶ Urge employees to change unions, to start a new one, or have none at all.
- ▶ Tell his employees that he does not like to deal with unions.

AN EMPLOYER MAY NOT:

- ▶ Threaten employees with economic reprisal for participating in union activities. For example, threaten to move or close the business, curtail operations, reduce employee benefits.
- ▶ Promise benefits to employees if they reject the union or choose a union the employer prefers.
- ▶ Make a speech to assembled employees relating to union organization on company time during the 24 hours preceding a representation election.
- ▶ Give financial support or other assistance to a union or to employees, regardless of whether they are supporting or opposing the union.
- ▶ Announce that he will not deal with a union.

Over the coffee
the deal was closed



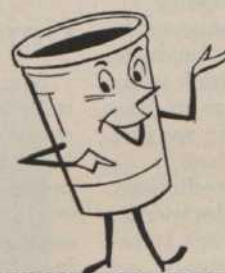
**Kelvinator Hot 'n Cold provides Coffee-Breaks that hit the spot
... ease tensions ... boost morale ... brighten every occasion**

When the occasion calls for harmony, have a Kelvinator Coffee-Break. It's quick, easy to prepare. Pour the contents of your favorite instant beverage package into a cup, add piping hot water from the Kelvinator Hot 'n Cold—which supplies cold drinking water also—and stir. *That's it!* Hot 'n Cold Beverage Centers near work areas, keep coffee-breaks clean, quick. End "percolator perils" ... as well as going or sending out for coffee.

Get Kelvinator's FREE BEVERAGE BONUS
Everyone ordering a Kelvinator Hot 'n Cold from January 1, 1958 to March 31, 1958, will receive a handsome free beverage bonus.

Perfect Beverage Center Kelvinator Hot 'n Cold Model ABR-HC with refrigerated compartment and Beverage Locker for instant beverage envelopes, cups and spoons. Lock safeguards contents.

Includes 100 packaged beverages (individual service envelopes of instant coffee, chocolate, beef broth and chicken broth, *plus* Pream and sugar), 100 cups, 100 spoons. Act **FAST!** Rush coupon below for your *free beverage certificate* and booklet: "How to cut coffee-break time in half."



Kelvinator's Mr. Hot 'n Cold says:
"I'm your Good Will Ambassador all day long with: **employees** during coffee-breaks, **customers** during important business meetings, **visitors** inspecting your office or factory."

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Rush complete details about Kelvinator's new Hot 'n Cold PLUS FREE BEVERAGE CERTIFICATE and booklet: How to cut coffee-break time in half ... to:

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Kelvinator 
HOT 'N COLD WATER COOLERS

and standard coolers in pressure and bottle models
Sold coast to coast ... rented in many cities

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LABOR PROBLEMS

continued

uses epithets against the management so disrespectful as to undermine discipline; 2, publicly attacks the quality of his employer's product; 3, under some circumstances urges a boycott of the employer's product; or, 4, spreads a false report about company affairs.

For employers, it is an unfair labor practice to promise a benefit or threaten reprisal, even though merely implied. Sometimes this is a close question and the ruling may turn on related statements, circumstances or events.

Take employer predictions, for example. It has been deemed proper in a particular case for an employer to prophesy that ultimately, by strikes and slowdowns, unionization would reduce pay.

On the other hand, a prediction in the midst of a unionizing campaign that, if employees kept on, they would probably be walking the streets looking for work was held by the Labor Board to contain a veiled threat of reprisal.

The Board took a similar view of a company president who predicted that he would resign if the union won a pending election for bargaining rights. This statement followed an earlier one in which the president said the success of the company depended on his personal promotion of a new product.

Here is another example of how the phrasing of a statement or the background in which it is made can make a difference in whether it is construed to contain a threat:

The Board found nothing wrong with the statement in a letter one company sent to all employees the day before a representation election:

"We will not be a party to any agreement whereby you will be compelled to pay for the right to continue to work for this company."

Another was found to have made an illegal threat to close its business when it posted a notice which said:

"If we can't do business in San Jose on an open shop basis, we just won't do business in San Jose."

On matters related to predictions or forecasts of future developments, the propriety of an employer's statement seems to hinge largely on whether the event predicted is something which the employer can make come true. If it is, the employer may be violating the law.

As a simple example, an employer might forecast such reasonable consequences of unionization as the fact that the union may call a strike for higher wages which may cost the

worker his job if he is permanently replaced during the strike. He may not predict that the worker will lose his job if the union wins. That would be a threat of reprisal.

While the free speech section of Taft-Hartley protects the employer against charges of unfair labor practices if he makes statements which do not include threats or promises, the Board may take a different view of these same statements in determining whether they interfered with the workers' expression of free choice in an election.

The Board has wide discretion in conducting representation elections. It may set aside an election lost by the union if it feels that, considering all circumstances, an employer's remarks or actions created an atmosphere which was not conducive to a free expression on the part of the employees, even though they did not amount to an unfair labor practice.

An employer faced with a union demand for recognition as bargaining agent for his employees may petition NLRB to determine, through an election, whether a majority of his employees want the union.

The McClellan Committee heard testimony that some unions forced employers to recognize them and sign contracts without regard for the employees' wishes. As a result, there is some support in Congress for legislation to require an election before a union may be recognized as bargaining agent.

Certification of a union through an NLRB election has this advantage for both union and employer: No other union may challenge the union's bargaining rights for at least a year, thus avoiding repeated inter-union clashes over representation which might destabilize the work force and undermine productivity.

At reasonable intervals, a group of employees or the employer may petition NLRB for an election to decertify the union as bargaining agent.

Union raiding

Management can expect more raids by one union on another as a result of the widening split in labor. Most trouble will come from the expelled Teamsters, which is ditching working alliances it has had with some eight AFL-CIO unions and hiring 200 to 300 more organizers.

The Teamsters claim that drivers in some industries have been taken over by unions in the industry, but rightfully belong in the Teamsters. Examples are the brewery, dairy, laundry, and garment industries. For this reason much of the increased Teamster organizing activities will be raids on other unions.

An employer is subject to pretty much the same rules when his employees are the target of a raid as when they are being organized originally. But he will face some new problems which are governed by additional rules.

For one thing, an employer may express a preference between competing unions. He may criticize one or all of the unions involved. He may utilize any information he has about unions, including disclosures of the McClellan Committee, to attack a union or unionism as such.

The employer must keep in mind, however, the general limitations: He may not assist any union or help employees oppose a union; he may not make threats or promise benefits.

An employer may petition NLRB for an election to determine which of competing unions, if any, represents a majority of his employees. If none does, he will not have to bargain with a union at all.

The Board cannot hold more than one representation election a year. Unless a true schism develops among the employees, the Board usually will not conduct a representation election until the existing contract expires, if the contract term is not more than two years. Example of a schism: a change in union affiliation voted by a local union membership which is opposed by the former parent union.

To prevent serious unrest and determine the majority's wish, the Board might arrange an early election, irrespective of the existing labor agreement. Meanwhile, the employer will face special problems.

If there is a dues checkoff, to which group does he pay it? In previous situations of this kind, some employers have put the money in escrow until the question of representation was legally determined. Some have simply held the money and let the contending unions take the matter to court.

If a new union is certified, what happens to the old union contract? The Board has not faced a clear-cut question of whether an employer may junk the old contract and ask the new union to bargain from scratch. It has simply said that he must bargain with the new union.

Some state courts have held that a labor contract belongs to the employees; that the union is just the employees' agent. If that is so, an agreement would appear to continue regardless of a switch in unions.

Picketing

The expected increase in strike, organizing and raiding activity is

bound to result in more picket lines. Mass picketing and violence are unfair labor practices which usually may be restrained under federal and state laws. Further, leaders responsible for mass picketing and other employees who engage in picketing or strike violence or threat of violence may be discharged.

Picketing, even though peaceful and otherwise permissible, has also been deemed improper where it is in support of an illegal objective. Examples are picketing for bargaining rights when the employer already is bargaining with a certified union; or picketing to obtain an all-union shop contract in one of the 18 states with a right-to-work law forbidding compulsory union membership.

In a new policy decision still subject to court review, NLRB recently ruled that picketing for exclusive recognition by a union which does not represent a majority of the employees is a violation of Taft-Hartley.

Such picketing, a Board majority held, amounted to an unlawful coercion of the employees.

Despite its peaceful nature, the picketing was coercive, in the Board's view, because it attempted to cause the employer an economic loss which would undermine the employees' financial security.

This case involved Teamster Local 639 and Curtis Brothers, Inc., a storage and furniture company in Washington, D. C. The union had won an election in 1953 by a vote of 15 to five.

In the course of negotiation of a first contract, the union struck in 1954 in an attempt to impose an all-union shop.

In 1955, the company petitioned NLRB for an election to determine whether the union still represented a majority of its employees. The employees this time voted 28 to 1 against the union.

When the picketing continued for more than a year afterward, the company brought charges of unfair labor practice which resulted in the new policy ruling.

Consumer boycotts

Attempts to promote consumer boycotts aimed at employers involved in labor disputes have been growing in number. Two major attempts have been in progress for a long time; one against O'Sullivan heels, which was struck in May 1956; the other against Kohler plumbing fixtures, which was struck in April 1954.

Unions have had a pretty free rein in attempting to damage a business through a consumer boycott. A new policy decision of NLRB limits in a



Walls of Golden Mahogany Marlite Planks are featured in this attractive Greer Steel Company office.

*"we wanted beautiful walls
that eliminate redecorating...
require minimum maintenance"*

"Marlite paneling was our choice, and that of our architects, for the interior walls in our new colonial style office building," says W. E. Zimmerman, vice president and general manager of Greer Steel Co., Dover, Ohio.

"We wanted a beautiful material that would provide distinction, warmth, and comfort... and at the same time be durable and permanent enough to eliminate redecorating and hold maintenance to a minimum. The many varied areas in which we used Marlite (main work area, 15 private offices, conference room, ladies' lounge and rest rooms) prove beyond doubt the adaptability of this versatile paneling to all types of business interiors."

Available in a wide variety of Loewy "Companion Colors" plus distinctive wood and marble patterns, Marlite is quickly installed over old or new walls. The soilproof melamine plastic finish never needs painting; cleans with a damp cloth. Before you build or remodel—business or home interiors—see your architect, contractor, building materials dealer, or write Marlite Division of Masonite Corporation, Dept. 170, Dover, Ohio.



Marlite Cherry Planks add warmth and dignity to the walls of this new conference room.



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LABOR PROBLEMS

continued

small way a union's freedom to use this weapon.

The decision, which involved the Machinists Union and Alloy Manufacturing Company, would seem to be applicable to the United Rubber Workers' boycott efforts against O'Sullivan, where employees voted 288 to five against the union a few months ago. The decision still has to undergo a court test, however.

The facts in the Alloy Manufacturing situation were similar to those in the Curtis case with this additional fact: Besides picketing for recognition and a compulsory union membership contract (although only two of the 12 employees were union members), the union urged Alloy's customers not to do business with Alloy and blacklisted the company by putting it on a "We Do Not Patronize" list.

Applying the principles expressed in the Curtis decision, the Board views the boycott tactics as coercive of the employees—when the union does not speak for a majority.

It is another matter when the union does represent a majority or there is no evidence that it has lost its majority status. For that reason, the ruling does not seem to have any bearing on the UAW boycott drive against Kohler.

The strike against Kohler began as an effort to win a contract which would require compulsory union membership. The company continued to operate, and recently announced it was operating at 85 per cent capacity despite the long strike and the union's boycott efforts.

However, Kohler was accused of committing an unfair labor practice—and thereby converting the strike from an economic one to one against an employer unfair practice—because it put a wage increase into effect during the strike. This charge, upheld by an NLRB examiner and still pending before the Board itself, precludes any election now to determine whether the UAW has lost its status as representing a majority of Kohler employees.

The Labor Board makes a distinction between a boycott and an attack on the quality of an employer's product reflecting disloyalty. It has upheld the discharge of:

—A sales girl who, during a labor dispute and while on duty, told a customer to take his business to a competitor.

—Striking employees of a paint firm who distributed a handbill asserting that paint made during the strike would be inferior in quality.

—Striking employees of a TV station who publicized the station's programs as being second-rate.

In the paint company case, the Board felt it unnecessary to determine whether the strikers' statements were true.

"Statements made by employees to the public which deliberately cast discredit upon their employer's product or services are no less disloyal because they are truthful," the Board said.

In this connection, the Board referred to a statement in the Supreme Court decision upholding the discharge of the TV station strikers: "There is no more elemental cause for discharge of an employee than disloyalty to his employer."

Secondary boycotts

Employer rights in secondary boycotts seem to be in a state of flux. The legal situation applicable to this tactic will be particularly important during the coming year because the Teamsters use the hot-cargo version of it as an organizing weapon.

For one thing, the Taft-Hartley provision intended to restrict secondary boycotts has many loopholes. Congress is being urged to correct the situation in any new legislation.

One example: A secondary boycott occurs when a union, wanting to put economic pressure on an employer it is trying to unionize or with whom it has a dispute, pressures a neutral employer to stop doing business with him. But Taft-Hartley restricts the use of pressure only against the employees of the neutral employer, not on the neutral employer himself.

The so-called hot-cargo clause has offered another means of getting around the secondary boycott ban. Under such a clause, an employer agrees with the union that his employees may refuse to handle goods which the union considers to be unfair.

The Teamsters commonly employ this clause in agreements with trucking firms, with the result that the union often decides whose goods a trucker may haul.

NLRB's attitude toward these clauses has shifted. At first they were held completely legal and enforceable.

Later, the Board decided that a union might appeal to employers to abide by a hot-cargo clause, but that it is a violation to appeal to the employees to strike or otherwise refuse to handle disputed goods.

This last view of the Board is being reviewed by the Supreme Court in three cases. The lower courts have

disagreed on whether it is valid. Recently, the Board further modified its position by holding that a hot-cargo agreement involving a common carrier is completely invalid. Its reasoning: The Interstate Commerce Commission puts common carriers under a duty to make their facilities available without discrimination or undue preference; they may not agree in advance to withhold their services from customers designated by the union.

Another attack on hot-cargo contracts is pending before the ICC itself. The victim of a hot-cargo clause has asked that ICC certification as a common carrier be withdrawn from trucking operators who abide by hot-cargo agreements.

Suits

Employers who suffer financial losses for one reason or another may in some cases bring suit and collect damages under various federal and state laws, and more seem to be doing so.

Suits for damages stemming from violation of contract may be brought under the Taft-Hartley law. Two former owners of a company destroyed by a secondary boycott in violation of contract have sued four unions for \$7.5 million.

Under the Clayton Act, which makes a union subject to antitrust restrictions when it acts in collusion with an employer, a small daily newspaper is suing the International Typographical Union for more than \$1 million. It charges that the union lent \$490,000 to a competing newspaper in an effort to create a monopoly.

Under the Railway Labor Act, the Teamsters were sued for \$5 million in connection with a strike. The suit was withdrawn, however, when the union called off the strike.

A Federal District Court has ordered the United Mine Workers to pay \$400,000 in damages to a coal mining company because of violence used in preventing the mine from operating until an agreement was signed with the union.

A judgment of \$120,000 against the United Construction Workers, a UMW affiliate, was upheld by the Supreme Court. It was won by a construction firm which the union had prevented from performing a contract because its employees were not UMW members.

The Southern Bell Telephone Company sued the Communication Workers of America for \$5 million for punitive damages and property damages attributed to the union during the 1955 strike. The union settled out of court for \$315,000. **END**



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LABOR
1958

LABOR LAW CHANGES COMING

Agreement that action is needed
won't eliminate hot fight. Here's
outlook and factors affecting it

THIS IS THE OUTLOOK for labor legislation:

Unlike other years, 1958 will find all sides favoring some legislation to regulate union activities.

At the same time, the expected hot fight over just what Congress should do—in what directions it should go, and how far—may result in no legislation at all. That would not be surprising in this congressional election year.

Enough views have been voiced by key members of Congress, Administration spokesmen, business leaders, union officials and others to give a good idea of the kind of legislation Congress will consider and the kind of support or opposition different proposals will get.

Just what will come out of this session, however, will depend on the labor-management climate during the next six months. Legislative developments are always sensitive to changing public opinion, so that the timing of legislative action can be most important.

The outlook for labor legislation this year can easily be affected, for example, by what President Eisenhower asks for and how hard he fights to get it; by the progress of labor's attempts at self-reform; by the extent of strikes or other labor trouble which may result from the growing split in labor; by key negotiations coming up in the trucking, automobile and other industries; by new disclosures of the Senate labor rackets investigating committee; by public opinion reflected in letters to members of Congress.

Everything considered, the chances for corrective labor legislation in

this session are good. Don't expect too much, though. The legislation may boil down to compromises which will satisfy neither employers nor labor leaders completely. They may still be a step in the right direction.

The labor problems that Congress is trying to correct through legislation may be classified into two groups.

First: those problems which are largely internal and involve union administration, relations between a union and its members, and other union activities which do not involve direct relations with employers.

This group would cover, for example, such problems as union finances and welfare funds, democratic union practices, trusteeships, political activity.

Second: those problems which involve union relations with employers and employees. Examples: organizational picketing, monopoly tactics, states' rights, boycotts, collusion, compulsory unionism.

Many legislative ideas to meet these problems are being talked about and considered. Some already

AFL-CIO President George Meany says:

"I would support sound legislation to meet existing evils that cannot otherwise be dealt with adequately—provided such legislation is properly tailored to meet these evils and is not designed to frustrate the legitimate activities and objectives of the trade union movement."

have been introduced in Congress in the form of bills; others will be.

On the basis of the amount of public attention focused on some of these problems, the nature of the problems, and the attitudes expressed by interested officials and groups, Congress at this time seems most likely to pass legislation to do these things:

Financial reports: Make all unions register and file more detailed and public financial reports with the Labor Department.

Welfare funds: Require pension and welfare plans to be registered with the government, and their operations disclosed.

Major point of issue: whether this should apply only to union welfare funds in which corruption and other abuses have been uncovered, or include funds managed jointly by employer and union and plans which are administered by employers.

This legislation is nearest passage. Hearings have been completed in the Senate, and a Labor Committee bill based on them has been introduced.

Organizational picketing: Forbid picketing by a union representing only a few, if any, employees in an attempt to force an employer to sign a labor contract against the wishes of a majority of his employees. Secretary of Labor James P. Mitchell calls this blackmail picketing.

Major issue: whether to require majority employee approval of a union (before any employer may recognize the union as bargaining agent) and employee approval of a contract (before any employer and union may sign it).

Democratic union practices: Require unions to hold frequent elections of officers by secret ballot; regulate the conditions and duration of trusteeships under which local union members suffer suspension of rights in the union and are subject to direct control of international union representatives; require employee approval of strikes by secret ballot; make union officials more responsible to the membership.

Collusive practices: Control operations of middlemen sometimes used by employers to curry favor with union leaders, to thwart unionization, or to play one union against another; make employers more responsible for the acts of their agents.

Despite what seems to be obvious need for legislation in the more controversial areas, the indications are that strong support and much hard work will be required to get

this kind of legislation through this Congress:

Secondary Boycotts: Plug the loopholes in the Taft-Hartley labor law's provision intended to curb secondary boycotts. The law has been construed to permit so-called hot cargo agreements under which employers agree that their employees may refuse to handle goods which the union calls unfair because they may come from a struck or nonunion employer. Nor does it make union pressure on an employer to cooperate in a boycott illegal; only coercion of the secondary employer's employees is restricted.

Labor will back counter proposals to minimize, if not eliminate, the secondary boycott restrictions now included in Taft-Hartley.

Compulsory unionism: Pass a national right-to-work law making it unlawful to require a worker to join or stay in a union to hold a job. Taft-Hartley permits the states to pass such a law, and 18 states have done so.

Until recently, union lobbyists held high hopes of killing the Taft-Hartley provision which makes the state laws possible, thus nullifying the 18 laws in one swoop. Now they will be satisfied if they can block the enactment of a national ban on compulsory union membership.

Union monopoly power: Lift the exemption unions have been given from antitrust restrictions, so that they will be treated the same as business enterprises when they engage in monopolistic practices and attempt to restrain trade. Such union activities are now illegal only when they are carried on in collaboration with employers.

States' rights: Restore the effectiveness of state labor laws which have been nullified because of federal pre-emption of the labor relations field. This will be considered as part of general states' rights legislation intended to restore state authority in other fields, too, such as sedition and civil rights.

Political activity: Tighten restrictions of the Corrupt Practices Act which forbids both corporation and union expenditures in connection with federal elections.

In four cases, the courts have held that the ban does not apply to certain union expenditures. They included the cost of publishing regular union newspapers endorsing and supporting certain candidates for Congress, the cost of regular TV broadcasts in which candidates supported by a union were interviewed and presented in a favorable light, and salaries of union officials whose duties include political activity. **END**



"I'm tempted... to get a postage meter!"

Mr. Whivver is branch office manager of a knit goods firm. Weekends he golfs. However, this Saturday there came a phone call from a New York buying office. If he could get one sample, men's ski glove, wool, white, to 41 store buyers of the Northeast Amalgamated Group, he might get a big order! So Mr. W is having a sticky time, stamping 41 packages for parcel post!...No wonder he's tempted to get a postage meter!

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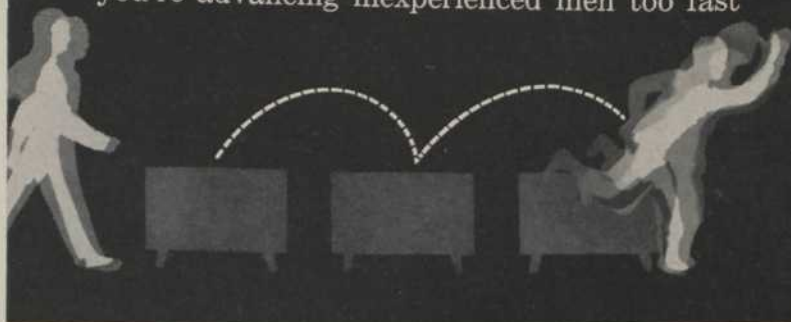
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You have too much turnover if, to plug gaps,
you're advancing inexperienced men too fast



Turnover

continued from page 35

for this kind of pinpoint analysis. It has proved to be an extremely useful tool for enabling managers to identify areas in which supervision is weak or inadequate, where morale has broken down because of poor communications or human relations, where job simplification or other improvements in working conditions are needed.

But remember that a high turnover rate in a particular unit is the signal for careful investigation, not for leaping to conclusions and taking drastic action. There may be excellent reasons why turnover is high in that unit, and it is quite possible that the supervisor needs help rather than criticism from top management.

Conversely, a low turnover rate in one unit may be cause for suspicion. Has this unit become a haven for incompetents whom nobody else wants to hire away from you? Is it staffed and supervised by complacent employees who figure they've got it made? Or is its low turnover rate actually a tribute to superior management and working conditions?

The ultimate goal of turnover analysis is to break down the over-all problem represented by your gross turnover rate into component sub-problems which management can attack with appropriate weapons.

You may find a good deal of turnover that you don't want to do anything about. This would be true of quits which rectify an age imbalance, open promotion ladders or remove misfits from the managerial, technical or supervisory echelons.

If you apply a purely dollars-and-cents calculation, you may find that turnover in certain types of unskilled labor is not as costly as you thought. Harold Edgerton, vice president of the management consultant firm of Richardson, Bellows, Henry & Co., notes that some organizations employing large numbers of unskilled workers may deliberately encourage a high turnover rate in the belief that it saves them money in the long run by keeping wage scales low.

Mr. Edgerton warns, however, against rushing to the conclusion that it is cheaper to hire and train a new worker, even in a low skill occupation, than to provide the salary increments, extra vacations and other seniority benefits that accrue to veteran employees.

The difference in efficiency between a seasoned employee and a newly hired one cannot always be measured precisely. Low morale and lack of employee loyalty in an organization which demonstrates its indifference to a high quit rate can turn into an enormous hidden cost.

Above the ranks of semiskilled labor, and especially among technical and managerial employees, turnover is unquestionably expensive.

While a certain amount of employee mobility in the upper echelons is a desirable antidote to organizational stagnation, you certainly don't want too much of this good thing.

Obviously, there must be an optimum turnover rate somewhere between the extremes of too much and too little. But management theorists have not yet been able to agree on what it is. Some British researchers, who have generally paid more attention to this question than Americans,



Waving money under their
noses won't always hold
scarce technicians . . .
There are other ways

like the figure of 35 per cent. This strikes many U. S. experts as much too high. On the other hand, one large industrial corporation, which has a turnover rate of about 10 per cent among executives and technicians, is convinced that this is too low, and that it is resulting in an unfortunate uptrend in the average age of the staff.

A reasonable view seems to be that of Professor Slichter, who contends that each organization has its own optimum turnover rate, and it is closely related to its over-all executive development program. Instead of trying to apply some arbitrary mathematical formula, Professor Slichter advises management to take a broad look at the opportunities for moving up in various fields. If they are severely limited, you probably have too little turnover. If, to plug gaps, you are advancing inexperienced men too fast, you have too much turnover. When you approach maximum utilization of available talent in any given specialty, you are approaching the optimum turnover rate.

Suppose the turnover rate, on the basis of a thorough analysis, seems too low in certain units or job specialties. What can management do about it?

Professor Pigors suggests three possibilities:

1. Transfers within the organization.
2. Selective early retirement.
3. Finding good jobs in other firms for able employees who have reached a blind alley in your organization, but who clearly have not attained their own highest potentials.

The out-placement technique, he says, is better business than it may sound, because it helps to build you a reputation as a good employer, which can be invaluable when your problem is recruiting rather than thinning.

If you decide that the turnover rate is too high in a particular area, attack the problem with a rifle instead of a shotgun. Try to pinpoint the



specific reason or reasons why too many good men are deserting you. Bear in mind that an executive may quit for one reason, a scientist for another, and a production worker for still another.

Booz, Allen & Hamilton, management consultant firm, surveyed 422 "executives on the move" to determine what motivated them to change companies. Slightly more than a third of them said they were looking for more responsibility or a better opportunity for future growth. Only 17.8 per cent jumped jobs in order to get a bigger salary.

A fair conclusion from this data is that the growth climate characteristic of a good executive development program is likely to be better glue than indiscriminate pay increases.

The federal government recently conducted an extensive survey of factors contributing to job satisfaction among scientists and engineers. Those employed in private industry rated the interest potential of work as the number one factor in determining whether they stay put or change jobs. They gave second priority to integrity of management, third to

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opportunity to move up in the organization. Pay ranked sixth, which again seems to indicate that you can't hold onto scarce technicians merely by waving more money under their noses.

Many studies have been made of the causes of high turnover among production workers. The one conclusion that stands out from all of them is that management should never assume that it knows why workers are quitting. The real reasons are seldom obvious (and are rarely disclosed in exit interviews at which a departing worker disguises his true feelings lest he jeopardize the recommendation he'll need to get another job).

When turnover analysis spots one area in which turnover is abnormally high, investigate that particular unit or operation with an open mind. Sometimes you can locate the trouble simply by going down to the shop, looking around, and talking to a few employees.

A drive-in restaurant chain had a high turnover among unloaders—employees who stand at the end of a conveyor belt removing trays of dirty dishes as they pour into the kitchen. Wage raises failed to make an appreciable dent in the quit rate. Exit interviews yielded a confusing variety of reasons for leaving.

Finally, a top executive decided to spend an hour in the kitchen unloading trays. He developed a bad back-ache from bending over.

He went back to the office and issued orders for all of the restaurants to have their conveyor belts raised by one foot. The turnover rate dropped to normal as soon as the job was completed.

The Harwood Manufacturing Corp. discovered it was losing a large number of trainees just at the point where they were about to reach the production standards of skilled workers. By lowering the production standards slightly, it made the threshold easier to cross and eliminated the failure frustration of trainees who felt they would never make the grade. Quits dropped sharply.

Dozens of other case histories could be cited in which relatively simple and inexpensive changes in working conditions have eliminated serious turnover problems.

Sometimes, of course, the trouble lies deeper—in poor supervision, inadequate orientation procedures for new employees, insufficient opportunity for training and promotion.

Some companies have found that the best place to combat high turnover is in the hiring office. By studying the traits of their most stable employees, and contrasting these where possible with opposite traits in employees who quit after a short time, they come up with a sort of profile of the type of person who is most likely to stick with a particular kind of job.

Thus an airline finds that young, unmarried girls who have not gone to college are fine prospects for stability as ticket agents. Male college graduates, on the other hand, are rarely content to stay in an agent's job.

An industrial firm finds that married men who own their homes and have friends in the shop are good bets for skilled mechanic jobs which require long training. At the opposite extreme, youngsters under 20 are likely to skip jobs after they've learned the trade.

The value of high pay scales and liberal fringe benefits in reducing employee turnover has been deliberately minimized precisely because this is the first solution that is likely to occur to managers. But it is time now to say the obvious:

Money, while it may not be everything, certainly is important.

You look elsewhere for turnover causes and cures only when you know that your wage rates and employee benefits are at least competitive with other firms in your area and industry.

—LOUIS CASSELS and RAYMOND L. RANDALL

REPRINTS of "Analysis of Worker Turnover Pays Off" may be obtained for 15 cents a copy or \$10.15 per 100 postpaid, from *Nation's Business*, 1615 H St. N.W., Washington 6, D.C. Please enclose remittance.

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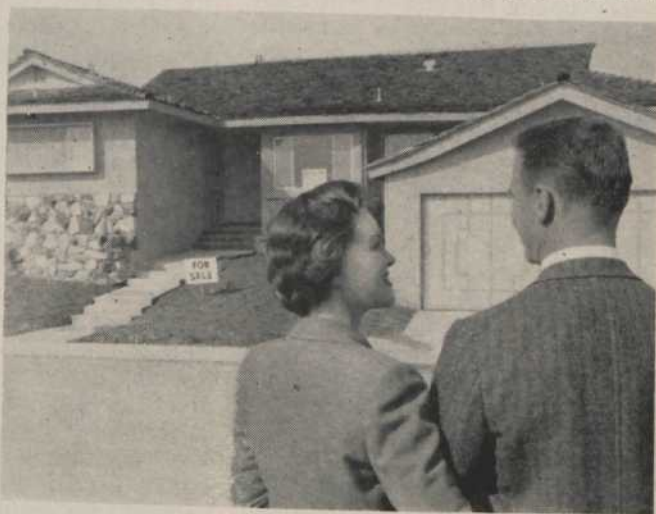


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EASIER MONEY

continued from page 41

also carried out at a lower cost than would have been the case if the discount rate had remained unchanged.

2. The realization that the tight money policy has ended will make life insurance companies and other institutional investors more ready to buy corporate and municipal bonds. So long as bond prices were falling it was only natural for institutional investors to hold back their purchases in the expectation that succeeding issues would offer a higher return. This situation has ended and the changed attitude of the largest suppliers of long-term credit will tend to reduce bond yields.

3. The lowering of interest rates will encourage the sale of securities by public bodies and hence stimulate the construction of public works. In this area there is still a great pent-up demand, part of which was deferred by the high cost of money which some tax-levying bodies refused to pay. Public works should therefore play a more important role in the economy than in 1957.

4. It is doubtful whether the lowering of money rates and the increased availability of funds will have a direct and immediate effect on home construction. There is usually a time lag before easier money conditions cause an upturn in home building. Moreover, the cost of home construction and of land may have increased to a point where the price is beyond the reach of many potential buyers. There is also a question as to whether lenders will be willing to buy 30-year mortgages without any down payment, if the government should decide to return to this policy. In any event, several months are bound to pass before the changed credit policy will have a marked impact on home construction.

5. Neither is the reversal in credit policy likely to have an immediate effect on general business activity. In this case, too, there will probably be a substantial time lag. This was clearly demonstrated in 1953 and 1954. Although the Reserve authorities changed their credit policies drastically in May 1953 and money rates dropped sharply, industrial activity continued to decline until March 1954. It did not begin its upward swing until September 1954. There was therefore a lapse of 16 months between the action of the Reserve authorities and the change in the trend of business activity. A similar lapse, although the duration

cannot be accurately predicted, may take place under present conditions.

Irrespective of money market conditions, capital expenditures by corporations will continue to decrease. Recent estimates are that such expenditures in 1958 will be seven per cent smaller than in 1957. The decrease probably will be greater, since the productive capacity now exceeds the effective demand, competition is keen and there is a squeeze on profit margins in many industries.

Moreover, in the early stages of the readjustment, as money rates become easier, both banks and business concerns will try to restore their liquidity. If the Federal Reserve authorities should decide, as they probably will soon, to increase the reserves of the member banks, the latter will first repay their indebtedness to the Reserve banks and then use any excess reserves to increase their liquidity by buying short-term government obligations. Similarly, the corporations will use a considerable part of the proceeds of the sale of new securities in the open market to build up their depleted working capital.

Aside from the possibility that expenditures of the federal government may increase, there are no



major economic forces in sight to push the economy upward. Exports, which played a substantial role during the boom of the past two and one half years, are beginning to recede. Inventories are being reduced. Indications are that the office-building boom also is slowing down.

Although gross national product and disposable personal income will remain high, it is doubtful whether the sale of durable consumer goods will be larger, or even as large, in 1958 as in 1957. Prices of these commodities are high, relaxation of terms, in spite of the easing in the money market, is not to be expected, and consumer indebtedness is already large.

What is perhaps more important, the percentage of personal income available for repaying debt is no larger than in the past.

It is entirely possible that consumption expenditures for nondurable goods and services will remain high and may even increase. However, this will not be enough to give the economy a real upward push. As in 1953-54, therefore, some time will have to lapse before the changed credit policy will affect the economy to an important degree. Before business activity halts its downward course and again resumes its upward trend, some of the maladjustments that have crept into the economy will have to be removed.

The course of business would be significantly changed if the government, for example, should increase defense expenditures substantially and the public debt limit should be increased to \$300 billion.

These actions would have no immediate direct impact on business activity because considerable time would have to elapse before the increased appropriations would affect industrial production.

But the psychological effects would be great. The fear of inflation would be renewed. Individuals, fearing that commodity prices would resume their upward course, might regard it as more advisable to buy at once than to postpone purchases, even if it were necessary to incur debt. Businessmen might feel that a return to large-scale deficit financing would lead to higher costs and that it would be better to build new plants and buy new equipment before prices rose. Such a development would also have a powerful influence on the stock market, and the movement of stock prices in itself has a considerable effect on business psychology as well as on consumption expenditures.

Should the government decide to revert to large-scale deficit financing, the Treasury would need the assistance of the Federal Reserve authorities to finance a large deficit. This in turn would lead to further easing of credit.

However, this is not a probability. The chances are that defense expenditures will increase by only a moderate amount and that the increase will be counteracted, at least in part, by reductions in nondefense expenditures.

Thus, while the reversal of Federal Reserve credit policy has already had an impact on money rates and may give a considerable stimulus to public works, its impact on general business activity is not likely to be great in the immediate future. Some time will have to elapse before the increased availability and reduced cost of credit and capital begin to be felt in the economy as a whole.

END

BOOST SALES

continued from page 61

company, and thus is a good motivating tool.

The interest in training has grown so that the salesman doesn't feel that he is isolated and put out to the field with no consideration on the part of the home office.

There are fewer programs at the factory where a salesman gets a quick run-through of products, company policies and operations, and is then sent to the field after two weeks.

Companies find that instruction can best go on initially out in the field. Then, after a man has had some understanding of the selling problems and some knowledge of the product and company, the visit back to the headquarters and to the factories makes more sense to him.

Also fast losing a place in selling is the notion that the six-foot two, broad-shouldered, Hollywood type is the only kind of person who can sell.

Good salesmen come in all shapes and appearances. Good selling skills can overcome the lack of height or other things that have traditionally been considered assets in the salesman.

Are the possibilities for improved efficiency only valid for big companies?

No. The recognition that improved efficiency is necessary is equally seen among smaller as well as larger companies. One principal difference is that the larger company knows more about what to do to get these efficiencies.

Yet, it is of even greater necessity that the smaller organizations understand, adopt, and continually improve on their practices. The feeling that many programs such as making a sales forecast, scientifically orienting your sales selection practices, counseling and appraising salesmen, are luxuries that can only be afforded by bigger companies is dangerous.

The smaller organizations are a vital part of our country's business fabric. But to stay alive and prosper, they must compete on the grounds of providing better products, more ingeniously marketed. The future belongs to these kinds of organizations, big or small. **END**

REPRINTS of "You Can Boost Sales in '58" may be obtained for 10 cents a copy or \$6.75 per 100 postpaid, from Nation's Business, 1615 H St., N.W., Washington 6, D.C. Please enclose remittance with order.

Ordinance plant counts heavily on cotton towels*



*Fairfax Towels used by Ordnance Division, Food Machinery & Chemical Corporation are supplied by Red Star Industrial Service, San Jose, Calif.



● At the Ordnance Division of Food Machinery & Chemical Corporation, San Jose, California, some 1600 people work to turn out armored infantry vehicles and other vital defense items for our armed forces. Because every possible measure has been adopted to insure the safety and comfort of these workers, with maximum economy, continuous cloth toweling is provided in all plant and office washrooms.

Management here lists elimination of fire hazard as a major advantage of cotton toweling, followed closely by improved personnel relations, lower maintenance cost, faster washroom traffic. They also report that maintenance crews are more cooperative: washrooms are easier to keep clean.

Why not take a lesson from this actual on-the-job management experience? It's one of many that show how cotton helps out in all kinds of plants and buildings. For free booklet on cotton towel service, write Fairfax, Dept. P-1, 65 Worth Street, New York 13, N. Y.

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HOW TO DEVELOP IDEAS

Creative men have four main traits. Here's how to learn to do more with what you have

IDEAS ARE VITAL factors in business survival today. Business, science, and government need all the ideas they can get. But in any type of organization, creativity must come from the top. Top and middle management executives must set the example.

If an executive himself is not a spectacular idea man, he must at least have enough knowledge and understanding of the creative processes that he does not inadvertently block or discourage fresh or different kinds of thinking within his organization.

This article covers two areas of creative thinking: the factors affecting creativity in you, as an individual; and some practical operational techniques of deliberate creativity—devices and procedures you can use to prime your imagination when you need ideas.

All studies to determine what makes a person creative point to four principal characteristics:

- ▶ Problem sensitivity.
- ▶ Idea fluency.
- ▶ Originality.
- ▶ Flexibility.

Experiments have demonstrated that all four of these can be acquired or developed to some degree in any individual. This does not mean, of course, that a person who rates low in using his imaginative faculties can suddenly be turned into a creative ball-of-fire. But he can, through application, learn to do more with what he has. At the same time, the naturally creative person can, through experience, learn to raise his already high creative output even higher.

Problem sensitivity

This is basically the ability to recognize that a problem exists; or to be able to cut through misunderstanding, misconception, lack of facts, or other obscuring handicaps, and recognize the real problem.

An example of an initial lack of problem sensitivity occurred during a course in creative thinking being conducted for a major research organization. As a homework exercise, the scientist-students were given six cartoons from magazines and instructed to write new captions for them. One young chemist turned in a particularly good set. After class, the instructor complimented him.

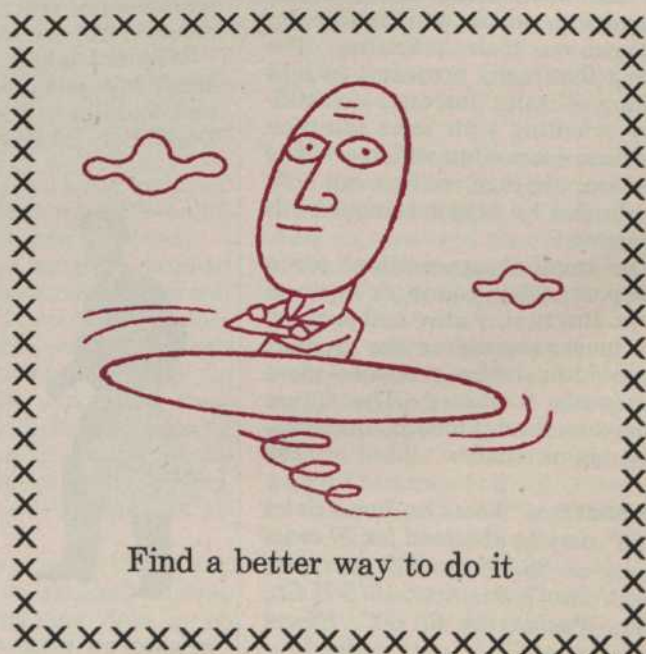
"Thank you," replied the student, "but those were

just switches on someone else's ideas. I want to learn to think up new things."

To the instructor, this was the tip-off that the student, who had demonstrated an ability to be imaginative, had not learned to use his imagination to find opportunities for applying ideas. At the next class session, the instructor pointed out opportunities for chemists. Right in the room were the paint on the walls, finishes on furniture, composition ceiling tiles, flooring material, window glass, even the clothing the students were wearing and the textbook materials they were using. All of these represented opportunities for chemical improvements in either basic materials or methods of manufacture. He then gave the students the assignment of bringing in a list of 10 such opportunities the next week.

When, the next week, he asked the young chemist how he had made out on this assignment, he received a self-satisfied smile and the reply: "I've got a couple of ideas that I'm not even going to tell you about—I'm taking them home to work on myself!"

Actually, the easiest way to improve your problem sensitivity is simply to keep in mind that nothing is





Write it down

ever as well done as it could be. Every man-made article, every business operation, every human relations technique can be improved and someday will be. In every situation you encounter as an executive, no matter how many times you have met and handled it before, an opportunity exists to find a better way. If you can once learn to recognize these problems as challenges to your own creative effort, you will be half-way to finding creative solutions to such opportunities.

Idea fluency

This term simply means that a person can pile up a large number of alternative solutions to a given problem in a given time. The value of this lies in the fact that the more ideas you have, the greater your chances of finding a usable one; the more plentiful your opportunities to get out of the same old ways of doing things.

Idea fluency depends largely upon personal mental habits. It is an attribute that can be developed or improved by nearly every person who will consciously apply himself to it. The theories covering fluency development are simple:

First, remember that it is quantity you are after. Second, don't mix evaluating with your idea gathering. Get your ideas first—worry about whether they are good or not later on.

Devices to aid fluency development are just as simple, but more plentiful. Here are a few of the more common ones. Don't be surprised if you find that you already use one or more of these. Most executives use such techniques from time to time. The value of having them formalized lies in the confidence it gives you to know that these tools exist, that they have a purpose, that you can use them whenever you feel the need of them.

Making notes. The use of notebooks, or "think books" or "idea traps," as they are sometimes called, is almost universal. Nearly every businessman carries at least one pocket notebook or some substitute such as 3x5

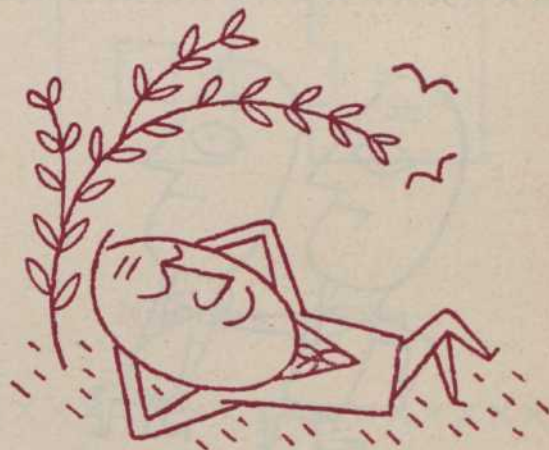
index cards or scratch pads. Unfortunately, carrying it is often as far as he gets. Or, if used, it is merely a recording device for statistics such as names, addresses, or what to tell the serviceman about the car next time it goes in.

Note-making can be a big help in idea producing if the right kinds of notes are made and the right uses made of them. The first useful kind of note to make is one that captures any stray idea. Write it down. You have probably had the experience of "going to sleep on a problem," and waking in the middle of the night with a good idea. It was so obviously good that you knew you would remember it in the morning. But came the dawn and disappointment. The problem was still there, but the idea was gone. Idea men who really mean it keep pencils and pads all over the house and office to capture those stray ideas immediately, before they have a chance to get away.

Record your observations of circumstances: plant operations . . . personnel conflicts . . . office procedures . . . production problems. Later, when you find yourself with even a few free minutes, you can use such at-the-moment notes as a base for giving the circumstance some thinking time.

Record your conclusions or opinions on problems you have been thinking about. Frequently, a person spends hours, even days, working on a problem. After reaching some good conclusion (an idea or decision), and acting on it, he puts the problem out of his mind to work on the next one. Later, the first problem may recur in the same or a different form. The man may recall that he had thought that problem through once, but without a record of why he did what he did, chances are he will have to do it all again . . . or else take the risk that all conditions are still the same and the same action is still appropriate.

The statistical note does, of course, have a place. You should certainly form the habit of noting anything that may have possibilities for future use to you, however remote those possibilities may seem at the moment. In this class of notes may be included clippings from newspapers, magazines, books, etc. Psycho-



Pick a time to be creative

logical tests have established that on information of average interest (i. e., neither slight nor vital), the rate of forgetting is 25 per cent within the first 24 hours; 85 per cent within a week. In the face of this, pure memory-substitute notes do make sense.

But along with your note-making system, you will have to develop a note-using system to which you transfer your spur-of-the-moment notations at the earliest opportunity. This can be as simple or as elaborate as the problems you are making notes on. Actual systems used by successful and creative executives range from a simple cigar box (which never fills up because the owner constantly pulls out and uses his ideas) to an elaborately indexed and cross-indexed library of loose-leaf notebooks used by a leading physicist. (He does the filing and indexing himself—claims he gets the same pleasure and relaxation out of it that other men get out of arranging stamp catalogs.)

Whatever system you devise, remember that the objective is to enable you quickly to gather everything you have seen, read, heard, or experienced on a problem or problem area when you need it. Then, when you have the problem, be sure to use the notes. Frequently, the hardest part of solving a problem is just getting started on it. Your notes can provide a take-off or starting point to get you going. They will help stimulate your imagination as you begin the search for ideas.

Pick your time to be creative. Every individual runs on a daily cycle. Each of us has a time during the day or night when he is most capable of creative or imaginative thinking. Conversely, you probably also have a time when you are most capable of cold-blooded analytical thinking. Your personal cycle is something you will have to analyze for yourself. Once you find it, however, set it aside and guard it zealously for ideating—use it for thinking about problems with a view to getting ideas.

In the same vein, you may find that you create best in some special location. If so, try to use that location for creating. It is probably too much to hope that your day-to-day working schedule can be arranged to let

you use both your favorite time and your favorite place for idea collecting, but if you should be fortunate enough to be able to have it this way, by all means do so. You want to give yourself every break in going after ideas.

Set a deadline. It is human nature to procrastinate on problems. Yet prolific idea men find they are at their most creative in spurts—they get their best ideas when they really go all out to get them. Sometimes, of course, there is a real and practical deadline to supply the urge to push yourself mentally. But you can also simulate such pressure by setting a deadline for yourself. If you really want to get yourself emotionally involved in meeting that deadline, just tell someone else that you are going to come up with 10 or 20 new ideas at such and such a time. This brings up another good individual spur:

Give yourself a quota. Remember that the aim of developing fluency is to build up your capacity to generate quantities of ideas. So start shooting for quantity right away. Don't set an impossible task for yourself, but if you can usually think up two or three ways something might be done, try setting a quota of at least five ways. When you can make five, up your quota to 10. When you get to 10, try 15 or 20. You shouldn't have to keep this up long before you will notice that, when a problem presents itself, your mind will automatically begin to run through many different ways of handling it.

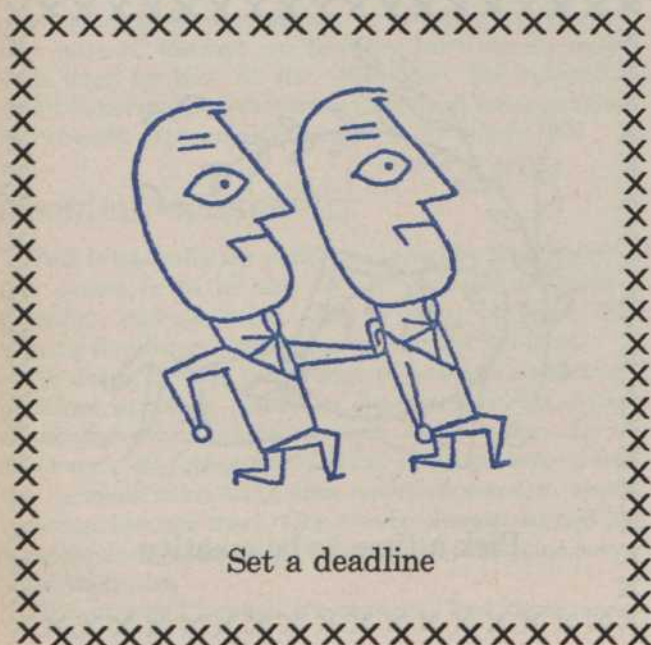
You will probably find that the quality of your ideas is improving right along with the quantity. This gets back to the basic advantage of idea fluency: If you have a problem, and you have only one idea as to how to solve it, then good, bad, or indifferent, one idea is all you have. If it happens to fail, then you are right back with no ideas. If you have two ideas, chances are one will be better than the other. If you have 20 or 50 or 100 ideas, your biggest problem may then be to decide which is the best.

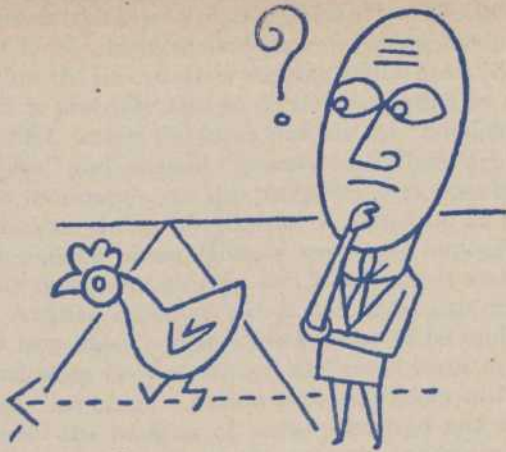
Originality

In the problem-solver this assumes many degrees. Ideas can range in value from the completely new abstract mathematical theory, down to a way to save 10 cents a day in the mail room. In practical, everyday business problem-solving, complete newness, or pure originality, is usually not what is needed. In fact, it may not even be wanted. The originality required of the business executive is more likely to be that of finding new ways to vary existing conditions, or new ways to adapt existing ideas to new conditions, or a new modification of something that will fit in an existing condition. The difference between a great business executive and an ordinary one is often his ability to produce these original variations to meet existing conditions.

The creative attribute of originality can also be developed, or at least simulated, to the point where it meets the requirements of successful business operation. The secret is in the systematic use of questions.

One of the most noticeable characteristics of highly creative people is their overwhelming curiosity. These people are always asking themselves, and others: "Why is this made this way?" "Why do we follow





Challenge the obvious

this procedure?" "Is this object really necessary?" "How can we improve the way we do this?" Charles Kettering calls it "systematically challenging the obvious."

The person who does not have this questioning ability will probably never be creative. But such a questioning approach to life, or to business operations, is largely a matter of habit. Therefore, it is something that can be learned. Almost every business organization or business executive makes use of checklists in one form or another. Usually, these are just to remind us not to make any mistakes in an accepted procedure. But another form of checklist can also be used to remind us not to forget to be original. This is made up of operational questions that challenge the obvious aspects of a problem. Using such checklists to spur ideas can be the basis for forming the questioning habit in an executive.

Before going any further on this subject, it should be said that the executive should never forget that his questioning must be done in a positive frame of mind. Too many people use such questions as a way of establishing their presence in an organization. They never go after the answers—they just raise the questions. The object of creative questioning is to uncover new possibilities for better ways of doing things. The person who asks a creative question does so with the intention of trying to find the answer himself.

The best type of checklist is one you make up yourself to fit your own types of problems of a recurring nature. Using such a checklist takes a certain amount of initiative, however. Just a mechanical use of a checklist does not produce originality. The purpose of such questions is to provide challenges to obvious ways of doing things. Therefore, the answers to these questions must be well thought out—even if the final answer is: "No; this is the best we can do right now."

Idea checklists can often be improvised, too. For instance, a sales manager looking for new customers might get real benefit out of just leafing through the yellow pages of a telephone directory with an open mind. An office manager, trying to develop a more

efficient utilization of office space, might get some ideas by paging through a trade publication devoted to hotel or kitchen planning. Since you are simply trying to find new or different ways of solving a particular problem, you can never tell when or where you will find an idea you can borrow. The originality may consist of the fact that this has never been used in your particular field before—and if it will solve your problem, settle for that.

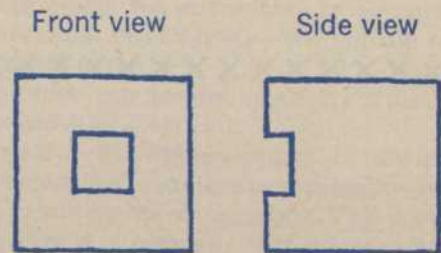
Creative flexibility

The quality of creative flexibility is largely that of being willing to consider a wide variety of approaches to a problem. This, in turn, is largely a matter of attitude. Rather than obstinately freezing onto one particular idea, or a single approach to a problem, the flexible person starts out by remembering that if one solution won't work, he can always approach the problem from another angle. This is also called "creative expectancy"—meaning, the creative person just plain expects to solve the problem, no matter how many failures temporarily delay the solution.

You can't go far on the subject of creative attitudes before running into the mental blocks that restrict or hamper creativity. Dr. James E. Gates, dean of the School of Business Administration, University of Georgia, has summed up these psychological quirks rather succinctly as "the way we feel about things . . . the way we see things . . . the way we think we ought to go about things."

One quick pencil-and-paper demonstration will probably suffice to show how common mental blocks can hamper you in a search for ideas. Let's consider the way we see things:

Here are two drawings of an object—the front view and a side view:



Now draw top view

Now, before you read any further, take your pencil and, in one minute, draw the top view of this object.

You will find the top view, and also a cross section view, at the conclusion of this article. Chances

are, you have drawn the top as a square or rectangular shape. Or, if you suspected a trap, you may have taken a wild stab at some variation of a straight-sided figure. However, this particular object is a cylinder. The square on the front representation and the notch on the side view, show a small rectangular area milled off the side of the cylinder. Therefore, the top drawing should be a circle.

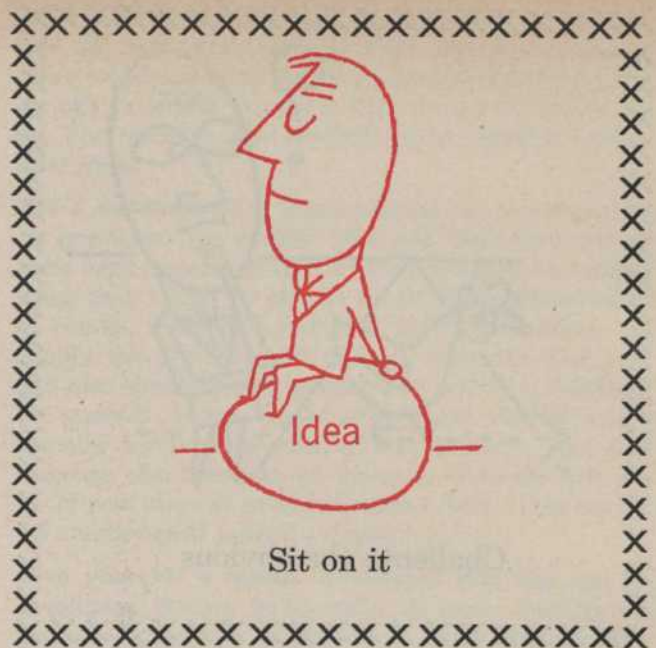
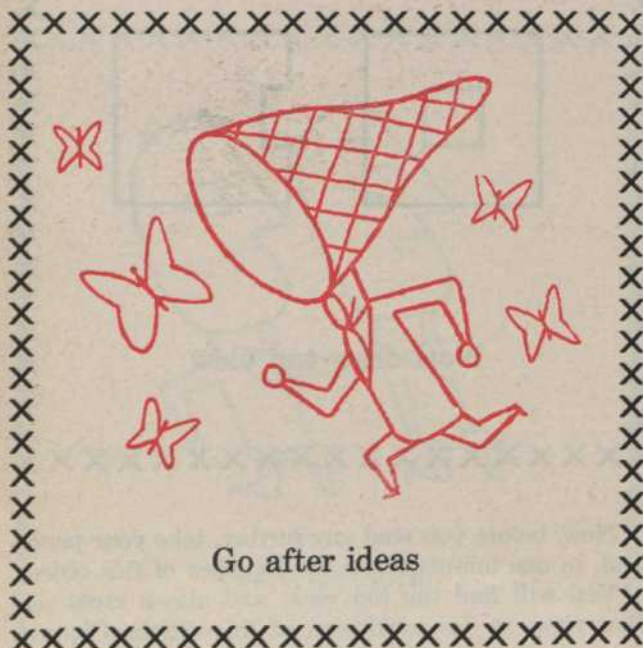
Why did you try to make a square or straight-sided figure? Because you were probably hampered by a perceptual block. Because two dimensions of the object appeared to be square, your mind immediately short-circuited to make the third dimension square also. Now translate this simple demonstration into a business problem, where two or three known factors are given to you, and you can easily see why it is sometimes difficult to prevent yourself from being forced into an obvious assumption about a third factor that may completely mislead you as to the course of creative action you should take.

Overcoming such mental blocks to creativity is, again, largely a matter of developing a healthy skepticism about the obvious. And the necessity to avoid being blocked makes a good case for having a systematic approach to solving problems.

As in checklists, the chances are no one method for processing problems is going to serve every businessman's needs.

Again, the best method you can use will probably be one that you make up yourself to suit your own types of problems. Therefore, the following method should be considered only as an example of what you might consider developing.

Define the problem. If it is large and complex, break it down. It is much easier to handle a series of small problems than one big problem that may be dismaying in its apparent complexity. Be sure that you yourself sufficiently understand the problem before you try to solve it. Try to state it in 10 words or less. Try to state it several different ways. Try to explain it to someone completely unfamiliar with it. Such devices can help clarify your own thinking.



Get the facts. Study the conditions and relationships of the facts with a view as to how they will affect the value of any solutions you arrive at. You can't know too much about the background of a real problem when you have the job of solving it, but resign yourself—no one ever has all the facts. Sometimes just a good, thorough study of facts will make the problem solution apparent. If so, you can then forget the rest of these steps. But if, after studying the background and conditions of your problem you still don't see a solution, then . . .

Go after ideas—but lots of ideas—all you and anyone you can get to help can think up. It is characteristic of any kind of problem susceptible to creative solution that there are many feasible solutions. The only guarantee you have that you will eventually pick the best solution to a problem is by making sure that you have thought of every possible solution. This is where idea fluency pays off. It is in this stage of the problem-solving that you use the various spurs and idea-starting mechanisms already outlined. And remember, don't at this stage let evaluation interfere with your idea collecting.

Use incubation. If you have labored over a problem, and haven't as yet found a satisfactory solution, you run the risk of frustration. The best thing to do then is to get away from the problem—let up on your mind. Your conscious mind is only a small part of the mental powers at your disposal. Back in the memory cells of your mind may be dozens of facts and associations that you have completely forgotten about, and so haven't brought them into use on your particular problem. But they are still there in the subconscious. If you can just give them a chance, they may help you find the solution to your present problem.

Incubation is commonly referred to as "sleeping on the problem." In actual practice, however, it may be just a matter of breaking away from your desk to take a walk to the water cooler, or timing yourself so that you can knock off your concentration to go to lunch.

Evaluate your ideas. No collection of ideas, by itself,

is worth anything until something is done with them. This means that plenty of cold-blooded judicial thinking has to be exercised and some decisions made. If you follow the procedure of starting with a quantity of ideas, it is probably best to do the evaluating in two stages: first, screen the ideas roughly for "possibles," "probables," and outright "impossibles." Then, tighten up your evaluation on the probables and possibles. There is also plenty of room for imagination in this decision-making phase. Often a seemingly impossible idea may be susceptible to a switch to make it usable. Asking creative questions about bad ideas can often develop new ideas or approaches that will be usable.

A final word on evaluating: You must learn to be objective. Too often, a person with a problem will go through all the motions of being organized and methodical in orienting the problem, gathering his facts, collecting literally dozens of ideas, and then will throw all the previous work out the window by adopting the idea he favored in the first place simply because he couldn't maintain his objectivity to the end.

Everything mentioned so far has concerned itself with what the executive can do to promote his own creativity. But no executive operates in a vacuum. A good executive realizes that he must operate through other people. In trying to inspire other people to be more imaginative or more creative, there are a few factors you will have to cope with. Recognizing that these exist is really the key to overcoming them, because an understanding of the situation will help you in planning your approach.

Here are a few of the things that keep the average person from being creative:

Natural resistance to change. People get in a rut. They like the ruts they are in because they know them so well.

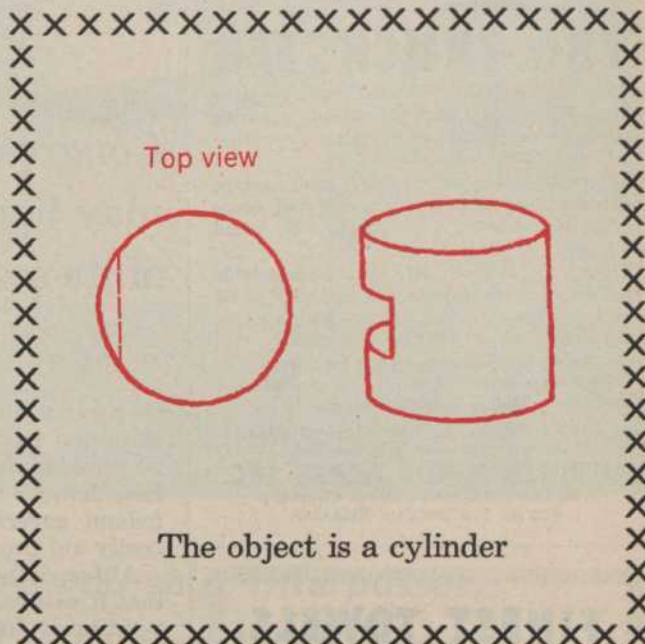
Laziness. Getting out of a rut requires effort. Creative thinking entails the hardest kind of mental effort. Unless there is some great incentive, and money is often not enough, people prefer the status quo. Life is so much simpler that way.



People prefer status quo

Lack of confidence. This comes from lack of experience. The organized effort to promote more creativity is a relatively new force in our culture. You may as well assume that, up to now, no one has ever tried to encourage your workers to use their imaginations; no one has ever made them conscious of ideas, or what ideas are, or how to go about having them. You have the job of developing the confidence if you want the creativity.

Fear of ridicule. This is ingrained in most people through having, at some time in the past, had their ideas laughed at or ignored. It is still common practice



today to criticize or laugh at unusual or different ideas before we have taken the time really to think about them and determine whether they are good or not. The executive who wants more ideas from his organization first has to create the atmosphere of encouragement and appreciation of creativity—the climate of safety—the freedom to fail.

No executive can inspire creativity if his own attitude toward it is skeptical.

The creative atmosphere cannot be accomplished through a complete organization overnight—no matter how sold or willing the management. This is even more so in the case of a company that may not have been paying too much attention to workers and their ideas in the past. But one thing we do know: Creativity must come from the top.

It could easily be that the road to success, fame, and fortune for an aspiring executive will be that he has used his own imagination to analyze, develop, and solve the problem of infusing his company with the necessity and the means of getting all-out, imaginative, creative thinking from everyone. —JOSEPH G. MASON

REPRINTS of "How to Develop Ideas" may be obtained for 15 cents a copy or \$10.15 per 100 post-paid, from Nation's Business, 1615 H St. N.W., Washington 6, D.C. Please enclose remittance with order.

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LOCAL DEMANDS PERIL U.S. BUDGET CUTS

Congressional investigation reveals what may happen when U.S. tries to turn some of its costly aid programs back to the states

GROWING DISSENSION between state and local government officials is threatening to wreck President Eisenhower's proposal to free the federal government of some of its costly aid programs.

Although the President has warned that it will be necessary to trim expenditures for some civilian programs in the year ahead, you can expect mounting pressure on Congress to expand federal aid programs rather than eliminate or curtail them.

Evidence of this is showing up in public hearings by the House Intergovernmental Relations Subcommittee. Seeking to determine sentiment for returning responsibility for certain federal programs back to state and local levels, the subcommittee has held hearings in Boston, New York, Chicago, Kansas City, Denver, San Francisco, New Orleans and Miami, as well as Washington.

The group, headed by Rep. L. H. Fountain of North Carolina, has learned:

► Local officials, by and large, express a greater fear of state interference in local affairs than of federal intervention or domination.

► Many would prefer to by-pass their state governments and deal directly with Washington on more matters.

► Few officials express any real hope that, even if Uncle Sam does relinquish certain tax sources, sufficient revenue can be raised locally

to finance the operations by local government.

► Most officials of both state and local governments will demand more—rather than less—money from Washington.

► Although no completely new categories of federal assistance have been proposed, many officials would like to see existing programs expanded, some into new areas not included in existing programs.

Among the expansions of federal programs urged before the committee are these:

Federal aid to local libraries.

Uncle Sam already has a rural library program. In 1958 it will cost taxpayers an estimated \$3 million, an increase from about \$2 million in fiscal 1957. The committee has been told that the program should be enlarged to include local libraries in metropolitan areas.

Federal grants for aiding children in foster homes.

Child welfare services will involve a federal expenditure of about \$10 million in fiscal '58, according to Budget Bureau estimates. The figure was about \$8.4 million in 1957. No money, however, is included for aiding children in foster homes. The committee has been urged to expand the program.

Larger expenditures for slum clearance and urban renewal.

The Budget Bureau estimates an expenditure of \$50.5 million this

year, up from \$40 million in fiscal 1957.

Expansion of the waste treatment facilities program.

A total of \$62 million is planned for 1958, up from \$7 million in 1957.

Greater responsibility for civil defense.

In this category of aid to other units of government, Washington plans an expenditure of \$16 million in 1958 compared to \$13 million in 1957.

Other categories for which you can expect state and local officials to demand larger sums include public assistance, aid for mental health, problems of the aging, general health and aid to retarded children.

All together, the grant-in-aid programs involve a federal expenditure of about \$5.3 billion this year. The figure was approximately \$4.3 billion in 1957.

As explained by city officials testifying before the committee, the eagerness to surrender more community responsibility, in exchange for dollars from Washington, results partially from mounting friction between urban officials and the officials of the rurally dominated state governments."

Here is the view of Mayor Thomas L. Lemon of Bloomington, Ind.:

"Urban areas have been more forgotten and neglected by state governments than they have by the federal government."

Mayor Ben West of Nashville, Tenn., says:

"In Tennessee, the city inhabitant is being systematically disenfranchised. His vote is being taken away from him and given to the cattle in the cow pastures of our rural areas. Pigs in some of our rural counties have more direct representation in the General Assembly . . . than human beings in the cities."

In his view federal programs, for the most part, were started when the states would not or could not assume the responsibility.

Mayor Paul F. Mitchum of Kansas City, Kans., explains:

"Our legislature has absolutely refused to reapportion representatives in the state legislature. As a result, we have urban communities of more than 35,000 population with one representative. Agricultural districts of 1,500 to 2,000 also have one. Our state legislature is not always willing to find solutions to urban needs."

Mayor David L. Lawrence of Pittsburgh, Pa., said:

"Reliable forecasts tell us that, within the next 50 years, the national population will increase by 130 million people. Of this number, it is ex-

(continued on page 86)



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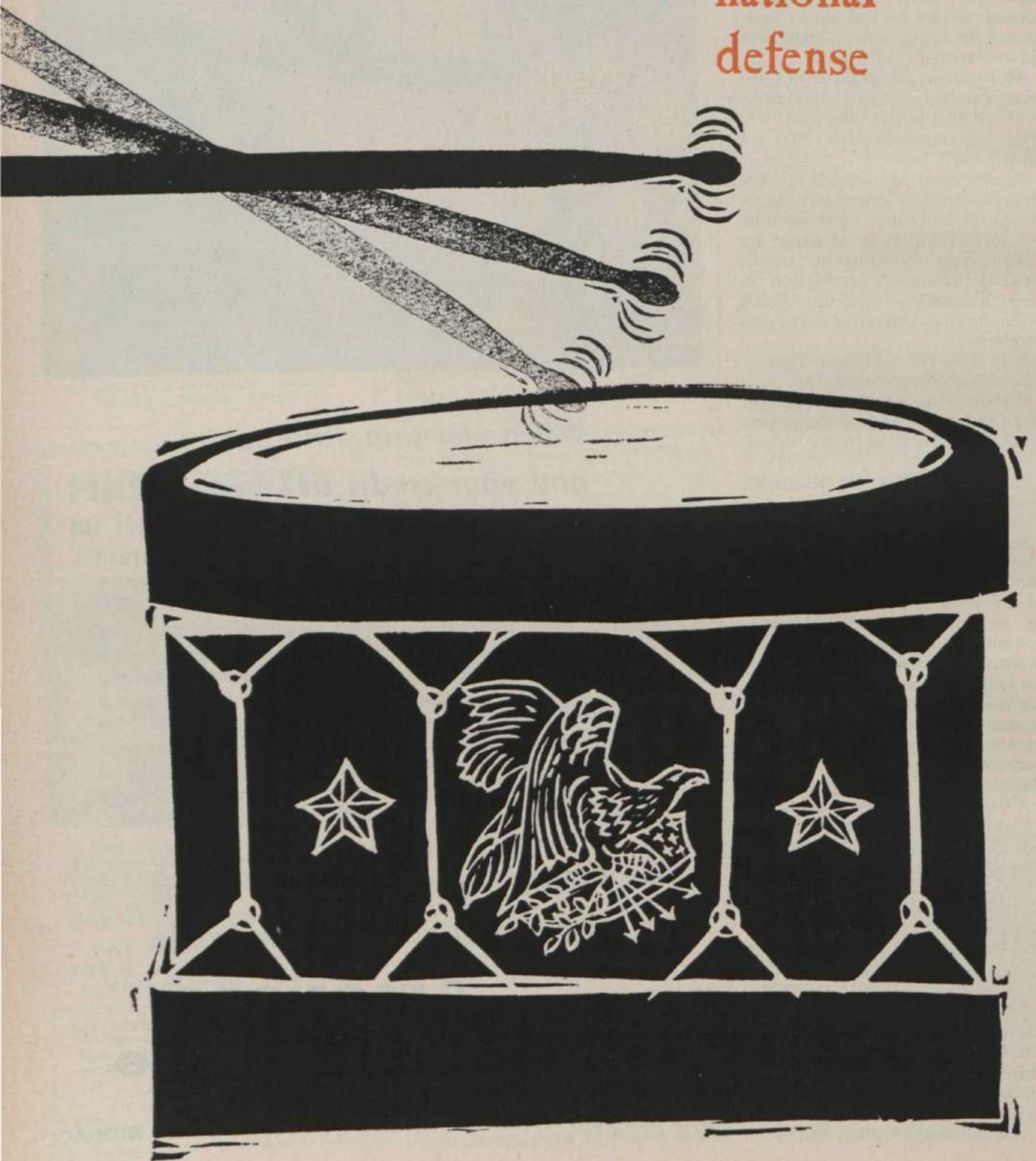
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To eliminate waste, the Chamber believes it is imperative that all non-essential federal programs be identified and terminated. It is equally important that less essential federal activities be curtailed.

The present situation calls for business leadership in the local communities to find on-the-spot solutions to local problems instead of looking to Washington for federal aid.

Finally, a strong national defense requires the earliest practical enactment of tax reductions and tax reforms that are needed to assure continued economic growth—the well-spring of national security.

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BUDGET CUTS

continued

pected that all but 10 million will settle in and around our metropolitan areas."

In his opinion no city or state will "have the resources to cope with these needs alone, any more than we can meet our limited but still far reaching problems of today."

At the state level, testimony also indicates that officials will seek expansion of existing programs. Gov. Foster Furcolo of Massachusetts says that relations between the federal government and the individual states are likely to grow more rather than less complex in the future.

The governor says the state has 38 departments or agencies with activities related to the federal government; 25 state agencies get federal funds, "some receiving grants under several different programs." Ten departments, the governor says, have not received all possible federal aid since 1952—"for a variety of reasons." Eleven state agencies felt that there were other federal programs in which the state should participate. A total of 48 agencies in the state do not receive "information relative to federal grants from any source."

That, says the governor, indicates

clearly the need for a special unit of state government to keep all departments informed. The legislature has turned down such a special coordination unit but Governor Furcolo plans to resubmit it.

As to shifting federal programs back to states, the governor says:

"A sudden shift from federal to state responsibility in certain programs of government could well result in great confusion and possibly great inequities."

Gov. Dennis J. Roberts of Rhode Island blames the growth of federal grants on state inability to finance needed programs.

In considering proposals to turn over programs to the states, Gov. Averell Harriman of New York told the committee:

"It is essential to focus attention on the fact that legislatures are working under severe fiscal and political pressures, and may be unable or unwilling to enact the necessary legislation to put the programs into effect at the state level or to raise the revenue necessary to operate them even if the Congress repealed certain taxes. Thus the result might be termination of the program itself rather than the intended transfer."

Solutions for pressing state problems, says Gov. James T. Blair, Jr., of Missouri, are difficult to come by.

"But there is one solution," he says, "that oftentimes has the appearance of being less difficult than others."

"That is obtaining federal aid."

"As a governmental administrator, when I obtain federal aid I am relieved of having to go to my constituents and ask them to bear further tax burdens."

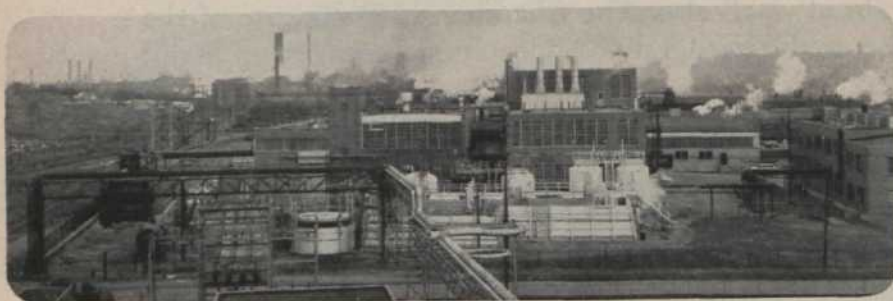
"The federal money becomes available for the needed services and, because federal appropriations are so huge, our particular service is not identifiable with any particular appropriation or tax increase."

The tremendous increase in federal expenditures—from \$4.7 billion in 1932 to \$72 billion in 1958—has resulted, Governor Blair says, "in the federal use and virtual pre-emption of nearly all possible sources of revenue, thus complicating the financial problems of state and local governments."

"Many revenue sources are largely shut off by the federal government's heavy reliance upon them."

"Yet, if federal costs are increased still further by state and local governments shifting burdens to the federal level, then the day when federal taxes can be reduced and more tax sources made available to other governments becomes ever more distant."

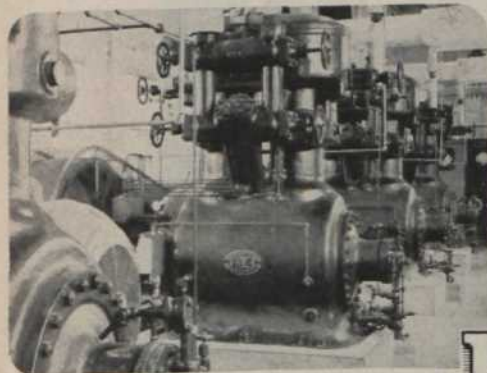
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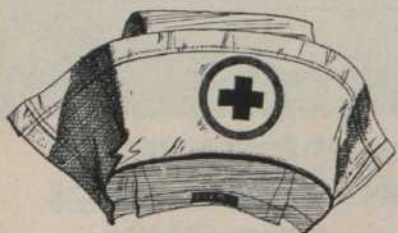
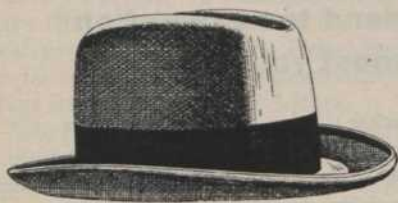
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Executive Trends

Reliability: management challenge in '58

Turning the corner into a new year, business and industrial leaders are becoming increasingly concerned over the reliability of their products and services. Stiffer competition, a more complex technology, the need for simpler servicing and greater safety—these and other factors are making reliability a decisive factor for many companies. One industrialist says a general public revolt is underway against a high breakdown rate in durable hard goods. This same executive warns that manufacturers of military hardware—notably missiles—simply cannot afford not to improve their product reliability. The national security depends on their efforts.

► *Quality control is the name that manufacturers apply to the function of seeing to it that their goods will stand up under the conditions of operation. You'll hear more talk of quality control in coming months. In addition, there will be stepped-up spending for control programs, greater demand for reliability data from materials and parts suppliers.*

Quality control for personnel?

Increased personnel efficiency is equally as urgent as product quality control. A recent NATION'S BUSINESS survey revealed that many firms regard the finding, training and evaluation of their employees—particularly at the first-line supervisory level—as their biggest management problem. Aware of this, industry is seeking improved techniques for finding the right man, fitting him to the job, and making sure he matches the needs of his job as time passes. One executive, Devereux C. Josephs, board chairman of the New York Life Insurance Company, says new products, methods and tools are changing skill requirements so rapidly that it is useless to try to prepare personnel for unknown skills or to expect the schools to do so.

► *What Mr. Josephs suggests is that industry and business recruit employees with general competence and then teach them the specifics they have to know as new needs arise. A study now in progress, he says, shows that there are as many people enrolled in education and training programs in industry as are now enrolled in all U.S. colleges and universities.*

How one company controls personnel quality

Spiegel, Inc., mail order house, reports good results from its clerical quality control program. Criteria for determining the individual standards (more than half of the company's employees are clerks) are the relative importance of accuracy on a given job and the opportunity for error. All jobs were analyzed and placed in 12 quality

ranges. Spiegel says the controls for each job are well established when the employee knows in quantitative terms the nature of the errors she is making, her current quality ranking and her trend over the recent past, her performance in relation to the expectations of her supervisor as indicated by set standards, and the manner in which this performance affects her pay and job advancement chances.

►The work of new employees at Spiegel is checked until it indicates that they can meet accepted standards. Random checks are made of other work. When errors are found, they are discussed diplomatically with the employee. In addition, weekly summaries of individual quality records are given to each clerk, with comparison of the percentages against established standards. Lists naming best performers are issued regularly. These and production bonuses give credit where it is due and stir other workers to better effort.

Change can bring this problem

The recent experience of an eastern manufacturing company demonstrates the difficulties management can encounter when it uses increased mechanization to achieve greater productivity and reduced costs. The company obtained electronic equipment for its payroll department, a centralized office servicing all of the company's decentralized divisions. The equipment made possible faster, less costly and more efficient payroll procedures. Nevertheless, managers running the payroll department objected to the equipment's introduction and were generally dilatory in adjusting to it. Investigation showed that the managers had suffered a status shock. Where they formerly had a corps of people under their supervision they now have a reduced number of people . . . and a machine.

►The problem was overcome through a program explaining the equipment's contribution to the company's cost position, the opportunities it presented for upgrading of personnel, and its many time-saving features. Slowly, the payroll department people came around. The company concedes that it could have headed off the problem if in the first place it had done a better job of building acceptance for this change.

"Step outside and we'll settle this . . ."

Three executives recently played a business decision game in which their mythical company was pitted against several other companies. The play compressed many operating quarters of business into a few hours. The three partners—men who had never met before—were, in real life, a sales executive, a financial officer and a retired army general recently named to head a large company. The salesman, with his natural aggressiveness, dominated the early decision making. The financial officer handled most of the figuring, and the general went along for the ride. After a few plays the salesman and the financial man were at each other's throats. The team had been faring poorly, and the financial man blamed the salesman's influence in the decision making. Finally the explosion came. The financial man invited the salesman outside. Only the general's intervention saved the situation.

►This story—a true one—points up what can happen when men from different backgrounds are mixed on a management team. In this case, the financial officer and the salesman were seeing problems only from their narrow perspectives, failing to be permissive of each other's ideas. Authorities who have analyzed the incident say it points up the need for management to build specialists into generalists to achieve smooth-working direction of business effort.

THERE'S ONE FOR YOU



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OPPORTUNITY

continued from page 43

"Managers will probably insist on more marketing facts than ever," adds Mr. Smith. "And there may have to be some belt-tightening here and there."

Time of opportunities

For business and industry generally, however, 1958 can be a time of opportunity. Decisions made and actions taken now can better prepare your business for its role in the future.

First of all, the consensus is that business in 1958 will engage in no lifeboat operation. It won't make major cutbacks or ditch an essential activity. "You could kick the whole industrial engineering department out," said one manager, "but you would just have to re-establish it again. This clearly would be foolish economy."

Second, for many businesses, 1958 can be a time for self-analysis to search out opportunities for improvement.

One of these opportunities might lie in better discipline and performance. "It's a good time to tighten up on performance requirements," suggests Mr. Paget. Others agree that more rigid requirements for business, rising unemployment, the reluctance to refill openings could create a more disciplined atmosphere. "Some companies will prune the tree and cut out the dead wood," predicts one manager. In other cases, wage incentives can increase productivity greatly.

Motivation through job enlargement, shifting duties so people have more responsibilities, can better meet their goals and have more control over their work and objectives, also can add to increased efficiency and productivity, suggests Philip Shay, executive secretary of the Association of Consulting Management Engineers, Inc.

Slow business volume also presents the opportunity to retire old capacity and switch to new equipment. "Many companies will spend more to save more by automating and putting in more time and labor-saving devices," predicts one manager. Newer equipment should make you more efficient and better able to compete in the future.

New product development is another opportunity area. For many companies, a new or improved product will be the difference between keeping ahead of their competitors or falling dangerously behind. "New products will be introduced, and

most companies will push products with the most profit return," one economist said. "Some companies will try special deals and premiums to get more sales volume, but they'll probably find this added expense will cut down on the profit return."

"There is rather formidable evidence," another economist says, "that some of the current buyer resistance—especially in the household hard goods field—is the result of too little change in product type or quality." He adds that if a family has an appliance that is several years old it might not replace it with a new one unless the new model offers substantial improvements and the family feels it can take on more installment buying. New and improved products are the only way to tempt the buyers, he says; witness the rising sales of washing machine-dryer combinations and portable television sets, for example.



If you are a multiproduct operator, the time may also be ripe to weed out the unprofitable or low-profits items and achieve a general strengthening of your position.

The opportunity exists to build closer cooperation among various departments to promote quicker and better decisions. "Now's the time to develop a cohesive team spirit," advises G. W. Howard Ahl, executive secretary-treasurer of the National Association of Purchasing Agents. In particular, he says, the purchasing executive or agent should be in on major planning because of his knowledge of materials and because he knows where savings can be made. He suggests that possible savings might be made in these ways:

Inventories could be lowered, a substitute material might be used in a product or the product could be changed in some other way. A part might be made instead of bought or vice versa. A component

might be cast instead of machined. Standardization, where possible, permits savings through quantity purchasing and reduced inventories. Working more closely with suppliers, developing local suppliers, reviewing the size and schedule of purchases and making full use of materials demand forecasts offer possible savings too.

The opportunity to reduce distribution costs is possible through an analysis of your marketing setup. Revising the dealer setup, changing modes of transportation, using simplified billing forms, revamping sales territories, restricting travel and entertainment expenses, better integration of advertising media with personal selling, changing packaging material, relocating warehouses are, of course, all possible areas for savings.

"There's a lot of slippage in the use of computers, too," says Donald G. Malcolm of Booz, Allen & Hamilton, management consultants. Expensive computers and other office equipment are not being utilized to their full extent or for long enough periods to make them pay in some cases, he adds. Time and effort often can be saved after a critical look at report-writing activities.

In this self-inspection and review of possible cost-saving areas, it makes sense to attack those activities which cannot clearly be identified as contributing directly to profits. However, consultants and economists warn, great care must be taken to make sure an operation isn't eliminated or curtailed which can actually help you cope with a fast-changing economy.

For example, some company might order a slash in expenditures for training when increased training might be wiser if the training is directed toward improving the salesmen's knowledge of your products, increasing the ability of salesmen to train others, familiarizing production workers with work simplification techniques, the use of new time-saving machines or waste-saving practices. Training also can be a strong incentive to productivity in a trainee who sees it as a form of recognition and reward from the company.

Another example might be research. A blanket cut in research might delay the introduction of a new competitive product. Or it might handicap your sales efforts. Increased market research spending, for instance, could give you better forecasts and customer prospect lists for future sales, more knowledge of consumer motivation, a new merchandising technique, an improved promotion idea. END

SATELLITES

continued from page 37

ours. The present annual rate of increase in total output is higher in the USSR, to be sure. This means that they are gaining on us at present. Beyond that, we do not have much of a basis for projecting into the future.

We know, for example, that their rate of growth is slowing down, roughly from 11 per cent to seven per cent a year. But we do not know if the rate of growth will continue to fall or will stabilize. We do know, however, that there is a drive for selected expansion.

In steel, for example, they are now producing at 50 per cent of our level. But in passenger cars, they are only producing 100,000 a year, or one sixtieth of our level. The closer the commodity is to the making of military end products the closer their level of output will approach ours. Take machine tools. Here, their level is already 80 per cent of ours.

What has achievement in the field of missiles and satellites cost the Russians?

From a strictly economic view, there is little doubt that developments like satellites and missiles are luxuries which the USSR can achieve only at the expense of daily necessities. To see this, we don't have to go very far. We can take Khrushchev's speech of last Nov. 7. He made it clear which came first. In addressing himself to the question on everybody's mind—that is, when can they expect a decent supply of daily necessities—he said:

"At present, in heavy industry, in machine building, in the development of science and technology, we have reached such a level that, without detriment to the interest of consolidating the defense of the country, without detriment to the further development of heavy industry and machine building, we can develop light industry at a considerably higher speed—in particular we can produce more footwear and textiles for the population so as to meet sufficiently the needs of the population in these types of goods within the next five to seven years."

He also promised more production of other basic consumer goods, better quality of such goods, and more housing. If they will wait 12 more years, he told the Soviet people, the housing shortage will be licked.

For the present, however, adequate housing is just too expensive for the keepers of the Soviet purse. A kitchen for every family would cut into their freedom to make a

powerful showing in the field of weapons. And where does it pay off? From the rulers' viewpoint, providing adequate housing for your own nation does not necessarily improve your position for frightening other nations.

Is there evidence that fissures are developing in the substructure of the Soviet system?

The gray mass of the Soviet social landscape is beginning to break up. The frozen unity which held the various social elements together during the long lean years of enforced austerity is slowly becoming dissolved.

Separate social groupings are beginning to appear, based on their different economic status.

As the government begins to turn out small annual supplies of luxury products, these obviously go to those who can command them, either through their purchasing power or through influence. The drive for more creature comforts is on. And all the thundering of *Pravda* against "the personal orientation toward life" cannot dissuade those in the Soviet Union who have the wherewithal from following their instincts for acquisition, to acquire the goods needed for a comfortable life.

Does this situation promise trouble for the Kremlin bosses?

Definitely. In this emergence of social groupings, the industrial worker is slowly finding that his place is at the bottom of the ladder. Once more, we are beginning to hear public complaints by the poorer dressed people in Soviet cities to the effect that "we are only workers." They do not know what the inside of the fancier hotels or restaurants looks like. Their wages are rigidly controlled by government bureaus, and new controls are now being added to the old ones. All wages, and especially bonuses, are now under new official scrutiny. The result of this review has already been announced in advance: It will result in better order and more discipline in the sphere of wages.

The prices the Soviet worker pays for goods are also fixed and easily manipulated by the government. When he gets paid, half of his rubles are already earmarked for taxes. The tax bite, collected by the government through its own retail stores, is approximately 50 per cent of the price of every article bought by the consumer. It is formally called a "tax on turnover," and can be changed by the government at will. When the Soviet citizen, for example, buys a movie ticket he pays four rubles, of which two are directly skimmed off into the government budget.

All this does not prevent the Soviet

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SATELLITES

continued

government, of course, from pronouncing daily, through all its outlets, that the worker is the sole and true master of the nation's destiny. Whether he will remain content indefinitely with the glaring contradiction between the elaborate fiction built up around his mystic role and his rather lowly status in regard to tangible rewards remains to be seen.

A member of the Soviet Embassy staff in Washington said recently that inequities in pay and privileges had been erased in the past year or so. What comment do you wish to make on that?

This sounds like a well memorized page out of the official mythology. I doubt whether it is intended to be taken as factual reporting. What is more, it covers so much ground so sweepingly that I would not know where to begin to evaluate such a statement. Let's think of it, charitably, as an entry in somebody's application for a better-paying job.

An aim of communism is to eliminate loafing by workers, black marketeering—all forms of crime and antisocial activity. What progress are the Russians making here?

The problem of loafing is much in the forefront on the pages of the Soviet press and on the radio. The government, in fact, is preparing legislation against it and organizing discussion campaigns to approve this legislation. It is certainly a symptom of some serious social malady in the Soviet Union. As discussed in the press, the recent increase in loafing looks like a by-product of the inflation brought about by heavy government expenditures on high-cost weapons.

Goods available for sale are so short, relative to money in the pockets of buyers, that many chronically scarce items can be bought and resold at a heavy profit. It pays some people, with influence in the state stores, to drop their regular jobs and earn a good income by supplying the needs of potential buyers who have money.

The penalties for speculation are heavy, but the risk is apparently worth taking. It is these middlemen who are the target of the current government campaign against "loafers, speculators and parasites."

Do any signs point to easier relations with the USSR?

Soviet strategists are never more dangerous than when they regard the military odds to be strongly in

their favor. Beyond the immediate present, however, the outlook is much more hopeful.

We need to bear in mind that the Soviet regime represents a threat to many nations because it is essentially an uncontrolled force, free of the restraint of its own public opinion.

It is in the area of repressing the will of its own people, it seems to me, that we can expect some improvement, some evolution in the direction of easing the unlimited ambitions and, hence, the threat of the Soviet regime.



Mr. Leon Herman

If they take the present climate in Eastern Europe as an omen, it is quite clear that if the Soviet-type regime is to attain any measure of stability it must reduce the pressure on its own population. More than that, it must eventually work out some machinery for consulting with the people in whose name it governs.

If, in time, the Russian people are admitted to share in making vital decisions, the danger to the outside world will certainly diminish.

What is the present status of and outlook for Soviet trade with the United States?

Our trade with the Soviet Union is now on the upgrade, chiefly as a result of increased Soviet purchases.

Before 1956, they tended to ignore this market completely as a source of supply. Now their purchases are running at the rate of some \$4 million a year, still a rather negligible amount. They are buying chiefly raw materials (tallow, hides, skins, seeds). But they are beginning to buy some machinery, chiefly for consumer industries. This is an area in which there is considerable room for expansion. What they earn here comes to about \$20 million a year, so that they could certainly buy up

to that amount. As for earning more dollars, the Russians claim that they are handicapped in this regard by the higher duties levied on their goods arriving in this country. This differential rate in duty is a provision included in a law passed by Congress shortly after the outbreak of the Korean war.

Seventy-six per cent of Russia's foreign trade resources are, of course, committed within her own orbit. Outside, the Soviet Union tends to gravitate chiefly toward the markets of the western, industrialized nations. That's where her real commercial opportunities lie, in regard to exports as well as imports. At this stage, the underdeveloped countries still account for only six per cent of total Soviet foreign trade.

But it is the underdeveloped nations that seem recently to have engaged the interest of the Soviet rulers. In these areas, the activities of Soviet trading organizations have been expanding dramatically, as part of the present leadership's campaign of pressure against the West. A special, powerful state committee, on the cabinet level, has been established to direct these operations. The approach is dual, by way of economic aid and through expanded trade.

What is most striking about this approach is the degree of concentration, which has strong political overtones. Six countries account for the bulk of the Soviet effort on this front.

India, Egypt, Yugoslavia, Burma, Iceland, and Afghanistan account for 70 per cent of all of Russia's trade with countries generally classified as underdeveloped. If the climate in Yugoslavia seems to be warming up toward the USSR, for example, it may have something to do with the fact that some \$370 million of the recent total Soviet foreign credits of roughly \$1 billion have been committed to support economic development in that country.

Is education in the USSR superior to education available to young people here?

I am not qualified to answer the question as to comparative quality.

But I can tell you of some facts about Soviet education that are not being examined in some of the current excited talk about how fast they are turning out technical people.

These facts relate to the tensions which an educational system like that of Soviet Russia creates.

For example, all reports show that in the Soviet educational system the discipline is rigid, the hours of work are long, and the emphasis is on the practical subjects—the physical sciences and math.

We know that the successful prod-

ucts of this school system give the regime the large numbers of technicians it needs for expansion. But we also know that there are many casualties. The highly demanding curriculum fails to carry along with it a good part of the student body. Some serious observers of the Soviet scene suggest that the washed-out middle school students serve as a source of disaffection, swell the numbers of juvenile delinquents who are reluctant to join the labor force on the low level to which their record in education has condemned them.

Will the steady growth in numbers of highly educated persons in itself cause any problem for the communist rulers?

The problems are there. The Soviet system, as we know it, is based on a monopoly of initiative. The minority in power has always been so distrustful of the entire population that it was willing to pay any price to concentrate all powers of decision-making at the center.

There were only two levels. At the top was the all-wise party. Below it was the mass of untrustworthy, submerged survivors of the capitalist age of darkness. The criterion of a good decision was its political direction. If it did not accomplish anything else, it at least weakened the opposition to the regime.

This simple world has now been left behind. There are far too many areas now in which the working specialists know far more than the party hack who is charged with supervising them. Some of these technicians, especially in the field of economic management, in science, and in the army, are strongly conscious of their worth and their positive contribution to the power position of the USSR.

By contrast, they are aware of the sterile role, as compared with the arrogant pretensions, of the Communist Party. What's more, their power and their group consciousness is growing.

The party apparatus, on the other hand, seems to have outlived its usefulness. The domination of real power by imaginary power cannot continue indefinitely. Zhukov was a symbol of the challenge to the myth of party monopoly rule over Soviet society. He failed. Other challengers will rise after him as part of a natural urge to shake off the stranglehold of the political wire-pullers. It is clear to most objective observers that the regime will achieve no real stability until it has given adequate recognition, and some sort of effective representation, to the technical groups in Soviet society who have the power and the will to influence the decisions made in their name. **END**



Pete on the farm

"Hello, John. Glad to see you. I'm glad I caught up with you, because I wanted to make sure you're coming to our Business-Farm Day next week. Our Chamber of Commerce is sponsoring it, and we'll be very disappointed if you fail us.

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Mr. Fuller and the salesmen who handle "branch office" calls

"Our customers in 12 cities telephone us without cost to them"

*Henry B. Fuller, vice president and general manager
The W. M. Pattison Supply Company, Cleveland, Ohio*

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the calls—is just a fraction of what it would cost to operate *one* out-of-town office.

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MORE URGENT THAN DEFENSE

A STRONG DEFENSE is our second greatest need.

To it Americans are prepared to devote ungrudgingly whatever money, resources and manpower are required.

But money, resources and manpower cannot give us a strong defense unless we first muster our common sense to meet a need that is rapidly growing in urgency.

We need a definition of "defense."

Without that, our determination to excel in missile development will become only an excuse to spend more money for everything the government is now doing or that somebody thinks it should do.

Government agencies have already begun the scramble to prove that President Eisenhower did not have them in mind when he said that entire categories of government activities should be cut out or deferred.

Secretary Folsom was quickly in line with the argument that education and health are high on the defense priority list.

"The need for more funds, more interest, more effort for education is very great," he has said. "It is no exaggeration to assert that the survival of our freedom may be at stake in our classrooms."

He said further that "the Administration is now carefully developing new proposals to present to Congress reflecting a new and broad look at education in today's world."

The National Association of Secretaries of State Teachers Associations also feels that the federal government should spend at least \$5 billion every year on the nation's school systems.

Civil Defense wants an expenditure of from \$30 to \$40 billion for a shelter program.

Public power advocates feel that the government should build more power plants so that the defense

effort may not be hampered by lack of electricity. Foreign aid advocates insist that only with more funds can they restore the confidence of possible military allies who have been worried by the Russian scientific achievement the satellites seem to represent.

In San Francisco, officials from 1,400 cities plugged for increased federal subsidies to civil defense, urban redevelopment and sewage treatment.

"Where public health and safety of citizens are concerned," the mayors were told, "it's just as much the responsibility of the federal government as it is for them to protect us from the Russians."

With such examples before him, anyone with ingenuity and a desire for federal subsidy should be able to find his way under the defense blanket. Applying the same ingenuity in other directions he might also find some way to reduce his need for federal money.

But this would require a new habit of thought and a new set of standards. It would be what President Eisenhower has called "one of the most distasteful tasks that the coming session of Congress must face."

Without strong backing by those who are willing to pay more than lip service to economy, the coming Congress is unlikely to face it.

Pleas for money which seem to represent the desires of the people back home will have more than the usual impact on those who will be running for election in November. If whatever expenditure is allowed can be justified as part of the defense effort, voting for bigger budgets may even be condoned as a patriotic duty, even if the money is spent for the wrong thing.

In a time when war may strike anywhere, drawing a line between defense and nondefense is no longer easy. Neither is paying taxes, although payment will be easier if the taxpayer knows definitely that defense is a goal and not an excuse.

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EXPECT THIS FROM EASIER MONEY

Here's how Federal Reserve credit policies will influence business in months ahead

BY MARCUS NADLER

SOME TIME IS BOUND to elapse before the Federal Reserve Board's easier credit policy begins to stimulate business.

Since the economy is essentially sound and the dynamic forces, such as the growth of population, rising living standards, and the fruits of research, continue to operate, the readjustment is not likely to go far or last long.

After some of the maladjustments have been corrected, business activity will resume its upward course and again reach new high levels.

The changed Federal Reserve credit policy, if supplemented in time by measures to increase the reserves of the banks, can play an important role in preventing the decline from going too far and in eventually reversing the trend.

To keep events of the next few months in proper perspective, a businessman will need to understand:

► The effects of the reversal of the tight money policy.

Such understanding will begin with a knowledge of:

► The reasons for tight money.

► The effects of tight money.

The lowering of the discount rate from $3\frac{1}{2}$ to three per cent by the Federal Reserve Bank of New York and three other Federal Reserve banks on Nov. 14 marked the end of the policy of credit restraint which started in the spring of 1955. During this period money rates increased sharply. The average market yield on Treasury bills rose from 1.17 per cent in February 1955 to 3.58 per cent in October 1957. The average yield on high-grade corporate bonds rose from 2.99 to 4.10 per cent, and the prime rate charged by commercial banks was raised in successive stages to $4\frac{1}{2}$ per cent.

Thus, at the end of October 1957 money rates had reached levels not seen in nearly 25 years.

Reasons for tight money

The reasons for the money stringency during the past two and one half years were, briefly:

1. Demand for long-term capital exceeded the supply of available savings. Savings rise slowly and even in prosperous years the normal annual rate of growth does not change greatly. This applies to voluntary savings in the form of savings deposits in commercial and sav-

ings banks and the purchase of savings and loan association shares as well as to contractual savings, such as life insurance premiums and contributions to pension funds. It applies also to savings in the form of repayment of debt.

On the other hand, the demand for new long-term capital can be explosive. For example, in 1955 and 1956 outstanding mortgages on non-farm one- to four-family houses increased by \$23.3 billion as against \$17.2 billion in the preceding two years. Expenditures for new plant and equipment by corporations totaled \$35 billion in 1956 and approximately \$37 billion in 1957. This compares with an average of \$27 billion in 1951-1955.

2. The credit policy of the Reserve authorities was restrictive. This was intended to prevent the substitution of expanded bank credit for savings, to check the boom which had assumed a magnitude that could not be long sustained, and to curb the forces of inflation in order to maintain the purchasing power of the dollar. The Reserve authorities, through open market sales of government obligations, increases in member bank reserve requirements and rises in the discount rate, can restrict the availability of bank credit and raise the cost of money.

To achieve these aims, the Reserve authorities used some of these measures and thereby held the expansion in the money supply—demand deposits adjusted plus currency outside the banks—to only 0.9 per cent in 1956 as against an expansion of 2.7 per cent in 1955. During the first nine months of 1957 the money supply actually declined by 0.4 per cent. On the other hand, between the third quarters of 1955 and 1957 the gross national product increased by 12 per cent.

Effects of tight money

These factors in combination were largely responsible for the tight money and the high rates of interest which prevailed during the past two and one half years.

Initially, the Federal Reserve credit policies were not fully effective in curbing the expansion of bank credit. This was due to the fact that in 1955 the banks had a large volume of short-term obligations which they could liquidate to obtain additional lendable funds. They were thus to a considerable extent immune from the credit policies of the Reserve authorities.

In 1956 and the first half of 1957 the banks sold a large amount of longer-term government securities, often at a substantial loss, in order to expand loans. Similarly, the non-



Dr. Marcus Nadler, internationally known economist, is professor of finance at the New York University Graduate School of Business Administration, and also director of the Institute of International Finance. Many businessmen in the New York area enroll as students in Dr. Nadler's course in "Current Money-Market Problems."

Dr. Nadler tells why—

Declining interest rates:

↓ will encourage sales of securities, increase working capital, stimulate construction

Rising bond prices:

↑ will make long-term credit more readily available

More and cheaper money can mean:

↑ Eventual boost to business activity in general

banking corporations sold billions of dollars of short-term government securities and also drew on their cash balances.

These operations in turn led to an increase in the turnover of bank deposits, which to a considerable extent offset the unusually small expansion in the money supply.

By the middle of 1957, however, the liquidity of the banks and the corporations had reached a point where it was not safe to reduce it any more. The increase in the velocity of bank deposits flattened out, and the restrictive policies of the Reserve authorities began to take effect. By early fall, 1957, the boom had ended. The index of physical volume of industrial production in October stood at 142 (1947-49=100) as compared with 145 in August and 147 in December 1956. Employment in manufacturing industries decreased, personal income declined, capital expenditures of corporations began to recede, and unfilled orders dropped sharply.

Commercial bank loans also reflected this change in the economic trend. Usually the volume of loans increases seasonally during the second half of the year. From July 3,

1957, to Nov. 13, 1957, however, industrial, commercial and agricultural loans of the weekly reporting member banks in 94 cities decreased by \$493 million as compared with an increase of \$1.6 billion during the corresponding period a year before.

Effects of the policy reversal

In analyzing this question it should be noted that the approach of the Federal Reserve authorities to the change in credit policy this time differed from the procedures adopted on previous occasions as, for example, in 1953. At that time the Reserve authorities, before lowering the discount rate, took measures to increase the availability of bank credit. This time they took no such action. The Reserve authorities did not prepare the market. On Nov. 20 the member banks were indebted to the Federal Reserve banks to the extent of more than \$1 billion and negative reserves, that is, excess reserves less borrowings, still totaled \$378 million.

Although the lowering of the discount rate gave notice that the policy of active credit restraint had ended, the Federal Reserve authorities did not follow it up with im-

mediate steps to increase bank reserves. The impact of the changed credit policy will depend on what measures will be adopted to broaden the country's credit base. In view of the declining trend in business activity, the rise in unemployment, and the abatement of the forces of inflation, you may expect that such steps will be taken. They may include both open market purchases and lowering of reserve requirements.

The increased availability and the lower cost of money will have several effects on the economy:

1. The first impact will be felt in the money market. Interest rates will decline and bond prices will increase. In fact, this has already taken place. Short-term rates, such as those on Treasury bills, bankers' acceptances and commercial paper, have decreased. Prices of medium and long-term government securities as well as of high-grade corporate and tax-exempt municipal bonds have taken an upward swing. In mid-November the Treasury was already able to borrow new money at a lower rate than previously prevailed. Its refunding operation was

(continued on page 74)